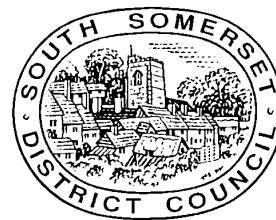


South Somerset District Council

Notice of Meeting



Audit Committee

Making a difference where it counts

Thursday 30th June 2016

10.00 am

**Main Committee Room
Council Offices
Brympton Way
Yeovil
BA20 2HT**

(disabled access and a hearing loop are available at this meeting venue)



The public and press are welcome to attend.

If you would like any further information on the items to be discussed, please ring the Agenda Co-ordinator, **Becky Sanders 01935 462596**, website: www.southsomerset.gov.uk

This Agenda was issued on Wednesday 22 June 2016.

Ian Clarke, Assistant Director (Legal & Corporate Services)

This information is also available on our website
www.southsomerset.gov.uk



INVESTORS IN PEOPLE

Audit Committee Membership

The following members are requested to attend the meeting:

Chairman: Derek Yeomans
Vice-chairman: Tony Lock

Jason Baker
Mike Beech
Mike Best

Carol Goodall
Val Keitch
Graham Middleton

David Norris
Colin Winder

South Somerset District Council – Council Plan

Our focuses are: (all equal)

- Jobs – We want a strong economy which has low unemployment and thriving businesses
- Environment – We want an attractive environment to live in with increased recycling and lower energy use
- Homes – We want decent housing for our residents that matches their income
- Health and Communities – We want communities that are healthy, self-reliant and have individuals who are willing to help each other

Members questions on reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting.

Any member of the public has the right not to be recorded. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:

<http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf>

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Information for the Public

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;
14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

16. The Audit Committee can request of the Assistant Director – Finance and Corporate Services (S151 Officer), the Assistant Director – Legal and Corporate Services (the Monitoring Officer), or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

Meetings of the Audit Committee are held monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently.

Agendas and minutes of this committee are published on the Council's website at www.southsomerset.gov.uk

The Council's Constitution is also on the web site and available for inspection in council offices.

Further information can be obtained by contacting the agenda co-ordinator named on the front page.

Audit Committee

Thursday 30 June 2016

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on 28 April 2016.

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (adopted July 2012), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting. A DPI is defined in The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 (SI 2012 No. 1464) and Appendix 3 of the Council's Code of Conduct. A personal interest is defined in paragraph 2.8 of the Code and a prejudicial interest is defined in paragraph 2.9.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on Tuesday 26 July (not Thursday 28 July as previously advertised) in the Main Committee Room, Brympton Way, Yeovil.

Items for Discussion

6. Health, Safety & Welfare - Annual Report 2015-2016 (Pages 7 - 10)

7. Internal Audit Plan Progress Report (Pages 11 - 31)

8. Internal Audit Annual Report and Opinion for 2015/16 (Pages 32 - 50)

9. SSDC Review of Internal Audit (Pages 51 - 79)

10. Assessment of Going Concern Status (Pages 80 - 83)

11. 2015/16 Annual Governance Statement (Pages 84 - 91)

12. 2015/16 Treasury Management Activity Report (Pages 92 - 104)

13. Audit Committee Forward Plan (Pages 105 - 106)

Following the close of the meeting

14. Training Session for Audit Committee Members (Page 107)

Agenda Item 6

Health, Safety & Welfare – Annual Report 2015-2016

Strategic Director: Vega Sturgess, Operations & Customer Focus
Assistant Director: Laurence Willis, Assistant Director Environment
Service Manager: Pam Harvey, Civil Contingencies Manager
Lead Officer: Pam Harvey, Civil Contingencies Manager
Contact Details: Pam.harvey@southsomerset.gov.uk or (01935) 462303

Purpose of the Report

In order to keep Members informed of health, safety and welfare issues relevant to South Somerset District Council activities and undertakings, an annual report is presented to the Audit Committee.

This report covers the period from March 2015 – April 2016.

The report contains an overview of health and safety matters and /or concerns, details of any new or impending Health & Safety legislation and comments on other health, safety or welfare matters that may have some impact on Council activities.

Recommendation

- (1) That member's note and comment on the report.

Health & Safety Management

Following the last report to Member's I am pleased to be able to report that there has been significant progress in a number of areas of health & safety management.

Safety Panel

In 2015 the Safety Panel was relaunched, with members from all services taking an active part. The panel now looks in more depth at specific issues in a 'spotlight' section; recent items have included Lone Working, Working at Height & Driving at Work. The standing items include accidents and incidents, legislation changes, recent prosecutions & fire risk matters. Future Safety Panel meetings will spotlight Service risk assessments and provide support and advice to Managers.

Health & Safety Management System

The TEN Health & Safety Management System is regularly used by all services to enter and update risk assessments and to enter incident reports. There are now over 1000 operational risk assessments spread across the Councils services, entered onto the system. There are also a significant number of COSHH assessments that have been entered onto the system.

Lone Working Audit Report

Recently SWAP has carried out an audit on the Councils Lone Working arrangements. Several recommendations were made that have been agreed. The Civil Contingencies manager will give a verbal update to Members on progress at the meeting.

Annual Health & Safety Inspection's

All Council Offices have been inspected this year, and Property services have an action plan of works or modifications that are required.

Accidents Statistics

Period covered March 2015 – April 2016

Service	No of Reported Accidents	Days Lost	Comments
Streetscene	18	81.5	Mainly minor accidents with two injuries that were reported under RIDDOR
Building Control	1	0	One minor accident
Economic Development	3	2	All minor incidents
Crematorium	1	0	Minor Accident
Revenues & Benefits	9	TBA	All one person with a continuing problem*
Countryside	1	-	Minor accident
Arts & Entertainment	1	-	Minor accidents
Property & Engineering	5	-	Minor accidents
Licensing	2	0	Minor Accidents
Total	42	83.5	

Incident Statistics

Period covered March 2015 – April 2016

The Civil Contingencies Manager will give a verbal update on the incident statistics at the meeting.

Health & Safety Training

Funds are available for Health & Safety training and bids for training are made to the Safety Panel for approval. A number of training events have been arranged for services in the past year, these include working at height for all services and working in water for Streetscene and other staff who work in flooded areas. In the coming weeks Streetscene staff will also be taking part in specific driving in water training that has been arranged by the Streetscene Manager as part of a review of the Councils response to flooding incidents.

Lone working workshops have been held for all services and specific workshops for IT & Development Control were held to assist those services with their Risk Assessments.

Priorities for 2016 - 17

- Review all Health & Safety policies
- Manage the Health & Safety system
- Annual Health & Safety Inspection of all Council Offices
- Review Case Law and how that may affect Council operations
- Manage & Chair Safety Panel

Recent Cases:

Council road sweeper kills biker

Sevenoaks District Council pleaded guilty to safety failings after a member of the public was killed when he collided with a road sweeper.

On 13 September 2010, a council road sweeper lorry was cleaning the outside of a dual-lane slip road when Derek McCulloch, 58, drove into the back of the sweeper on his motorbike.

Maidstone Crown Court heard the road sweeper had been travelling approximately four mph and there was a bend in the road which likely prevented the motorcyclist from seeing the road sweeper. Mr McCulloch was pronounced dead at the scene.

Despite the road sweeper having flashing beacons and a 360 sign on the back (a big arrow that indicates vehicles to pass by) there should have been significantly more controls in place for sweeping a stretch of road like this.

A Health and Safety Executive investigation found there was no road specific risk assessment in place, just a generic one covering all road sweeping done by Sevenoaks District Council. This did not identify all suitable control measures needed for sweeping this dual-lane slip road.

Sevenoaks District Council, was fined £40,000 in total after pleading guilty to breaching sections 2(1) (£10,000) and 3(1) (£30,000) of the Health and Safety at Work etc. Act 1974 and ordered to pay £32,000 in costs.

HSE Inspector Guy Widdowson said: "Competent risk assessments are essential when carrying out any significant task. These risk assessments need to identify the appropriate controls and such controls need to be implemented and checked to ensure they remain suitable and sufficient. Relevant industry guidance is there to be viewed when deciding what controls are needed.

"This incident shows how important it is for local councils, and other companies, to properly assess the risk of work tasks. If the task had been properly risk assessed, planned and suitable controls used Mr McCulloch would not have been killed. This is truly a tragic case and was entirely preventable."

Source: HSE Website

Date: 15 December 2015

Recycling firm fined £200,000 after employee struck by vehicle

A national recycling firm was fined after an employee was struck by a 7.5 tonne telehandler.

Preston Crown Court heard Sita UK Limited failed to provide adequate segregation between pedestrians and moving vehicles at a waste transfer station in Darwen, Lancashire.

As an employee walked across an outside plastics hand sorting area, he passed behind a stationary telehandler. The telehandler began to reverse and struck the worker who was

knocked to the ground and then run over by the rear wheel of the vehicle. His resulting injuries caused him to be hospitalised for two months.

The Health and Safety Executive (HSE) prosecuting told the Court the company had identified the risks but failed to put in place suitable controls to stop people being hit by vehicles.

HSE inspector Stuart Kitchingman said after the hearing: "Employers need to look carefully at their workplaces regularly to make sure that pedestrian routes are clearly marked and physically separated from vehicle routes wherever possible.

"The employee could have easily been killed and still has severe mobility problems as a result of the accident. He is unlikely to be able to work in the near future."

Sita UK Limited of Grenfell Road, Maidenhead, Berkshire, pleaded guilty to breaching Section 2 (1) of the Health and Safety at Work Act 1974 and was fined £200,000 with £11,998 costs

Source: HSE Website

Date: 13 October 2015

No risk assessment in South West Water drowning


No risk assessment was done for an operation which may have led to the death of a man at a Cornish sewage treatment plant, an inquest has heard.

Robert Geach fell into a filtration tank at the Falmouth Water Treatment Works in December 2013.

A colleague told the hearing he was not aware of any risk assessment linked to Mr Geach's job at the time, which was unblocking filters above the tank.

The inquest in Truro heard the South West Water employee drowned.

The hearing was told the maintenance procedure Mr Geach was carrying out involved the opening of a safety hatch.

 But when questioned by legal counsel for the Health and Safety Executive (HSE), a colleague of Mr Geach said he was not aware of any risk assessment being undertaken.

South West Water colleague Peter Colley said workers had been given personal alarms since Mr Geach's death.

He told the inquest that Mr Geach was unblocking a sand filter, which involved removing metal grating and operating valves positioned above the water in the tank.

Mr Colley said the gratings were now screwed down and a much smaller hatch installed to access the valves.

The inquest previously heard from Mr Geach's widow Sylvia who criticised South West Water's lone worker policy.

Source: BBC News

10 November 2015

Agenda Item 7

Internal Audit Plan Progress Report

Head of Service: Gerry Cox, Chief Executive - SWAP
Lead officer: Moya Moor, Assistant Director - SWAP
Contact Details: Moya.moore@southwestaudit.co.uk

Purpose of the Report

This report provides an update on the position of the Internal Audit Plan at the end of 2015/16 (Quarter 4) and review the progress made on the 2016/17 Internal Audit Plan (Quarter 1).

Recommendation

To note the progress made.

Background

The Audit Committee agreed the 2016/17 Internal Audit Plan at its March 2016 meeting. This report is to inform the Audit Committee of progress against the Audit plans for 2016/16 and 2016/17.

Financial Implications

There are no financial implications associated with these recommendations.

Background papers: None.

South Somerset District Council

Report of Internal Audit Activity

Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

Contents

The contacts at SWAP in connection with this report are:

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Director of Planning

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Moya Moore

Assistant Director

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Audit Opinion

The Accounts and Audit Regulations (England) 2011 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.

A separate report has been presented to the Audit and Governance Committee to satisfy this requirement and Members are asked to note its content. The opinion provided in that report is Reasonable Assurance in respect of the areas reviewed during the year.

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance 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 Committee at its meeting on 24 March 2016.

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
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

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 2015/16 and 2016/17 Plan.

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 pages 10 and 11 of this document.

In the period Quarter 4 and Quarter1 the following audits have been completed from the 2015/16 Audit Plan:

- Yeovil Innovation Centre (Reasonable Assurance)
- Key Income Stream Management (Substantial Assurance)
- Housing and Council Tax Benefit (Substantial Assurance)
- New Payroll System (Reasonable Assurance)
- Aged Debt Management (Reasonable Assurance)
- Property Services (Partial Assurance)
- Imprest Accounts (Reasonable Assurance)
- Ninesprings Café (Reasonable Assurance)
- Mobile and Remote Working _H&S (Reasonable Assurance)
- Corporate Procurement Cards (Reasonable Assurance)

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

The following Audits are in progress at the time of writing this report and a verbal update will be provided to the committee on these:

2015/16 Audit Plan

- Council Tax Collection (originally scheduled for Quarter 2) – Draft Report Stage
- S106 Discharge of Planning Obligations (originally scheduled for Quarter 2)
- Physical and Environmental Controls (originally scheduled for Quarter 3) – Discussion Document Stage
- Asset Register and Land Record Management (originally scheduled for Quarter 3).
- Risk Strategy & TEN Risk Management (originally scheduled for Quarter 4)

2016/17 Audit Plan

- Yeovil Cemetery & Crematorium Annual Accounts
- Boden Mill & Chard Regeneration Scheme Statement of Accounts

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' have been summarised in Appendix D.

However, in circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised in Appendix C. These items will remain on this schedule for monitoring by the Committee until the necessary management action is taken and appropriate assurance has been provided that the risks have been mitigated / addressed.

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

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, Members requested that we provide them with examples of where we have “added value” to a particular service or function under review. In response to this we have changed our approach and internal processes and will now formally capture at the end of each audit where we have “added value”.

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”.

As we complete our operational 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. Examples in Quarter 4/ Quarter 1 include the following:

SSDC is looking at options on how to govern the Crematorium function. SWAP Provided a summary of how other authorities manage their crematorium functions, e.g. by integrating it into the general budget or by having a separate body.

SWAP provided a comparison of Systems for Expense/Travel Claims from our Partners to share with SSDC.

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

SWAP Performance - Summary of Audit Opinions

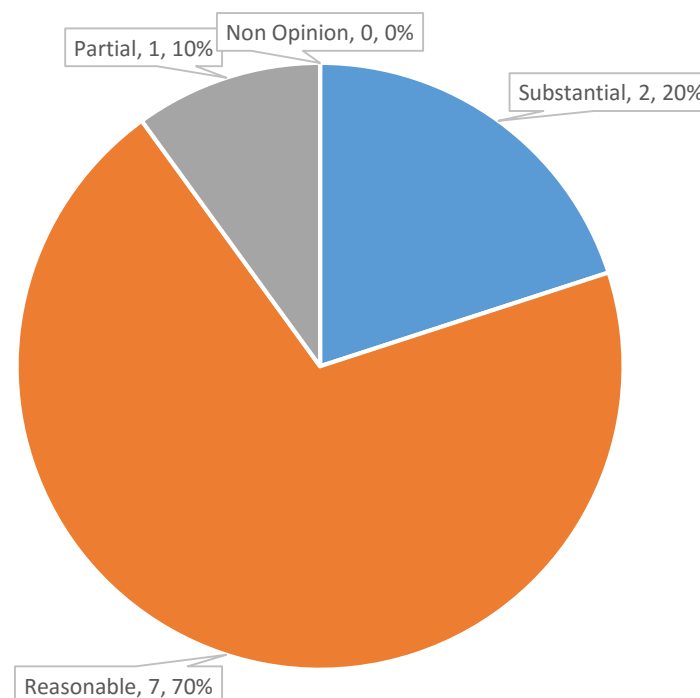
At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- None
- Non Opinion



Summary of Control Assurance

Control Assurance by Category
(for 2015/16 work completed in Qtr 4 and Qtr 1)



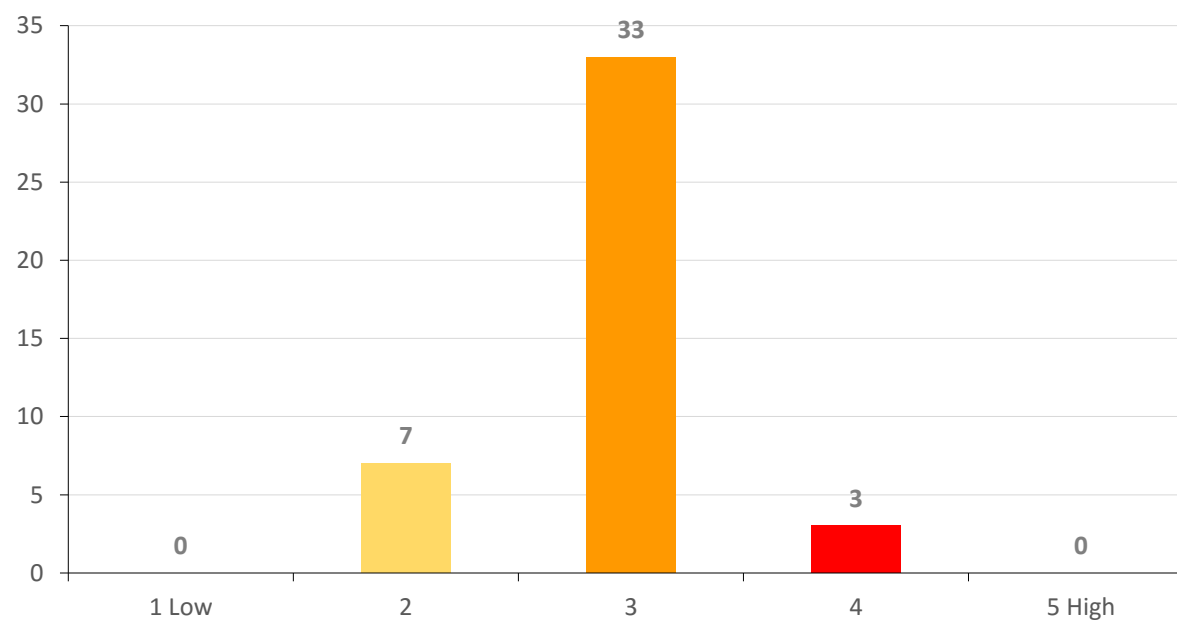
Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

Summary of Audit Recommendations by Priority



Summary of Recommendations

Audit Recommendations by Priority



Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

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



SWAP Performance

SWAP now provides the Internal Audit service for 14 Councils 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 2015/16 year (as at 8 June 2016) are as follows;

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress	76% 24% (2014/15 95% of plan completed at this stage with 1 Audit in Progress)
<u>Draft Reports</u> Issued within 5 working days	83% (Average Days of 3) (2014/15 60%)
<u>Final Reports</u> Issued within 10 working days of discussion of draft report	69% (Average Days of 21) (2014/15 53%)
<u>Quality of Audit Work</u> Customer Satisfaction Questionnaire	83% (2014/15 77%)

Internal Audit Plan Progress 2015/16 Quarter 4 and 2016/17 Quarter 1

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



Approved Changes to the Audit Plan

The following changes have been made to the audit plan in Quarter 4/ Quarter 1 to ensure internal audit resources are focused on the key risks faced by the Council. All changes are made in agreement or at the request of the Section 151 Officer:

- Contract Compliance – PPR Compliance was removed at the request of the client as this area had recently been reviewed by the South West Counter Fraud Partnership. It was replaced with a review of Corporate Procurement Cards which was originally scheduled for Quarter 1 2016/17. A replacement audit has yet to be determined.

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.

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.

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




Audit Framework Definitions


- 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.


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.
Very 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	5= Major		↔	1 = Minor	
						Recommendation				
						5	4	3	2	1
2015/16										
Follow Up	Printing & Copying Follow Up	1	Final	Non Opinion	0	0	0	0	0	0
Follow Up	Streetscene Enforcement Follow Up	1	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Yeovil Cemetery & Crematorium Annual Accounts	1	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Expenses & Reimbursements Fraud Prevention	1	Final	Reasonable	4	0	0	4	0	0
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts 2015-16	1	Final	Non Opinion	0	0	0	0	0	0
ICT	Mobile and Remote Working_SSDC	1	Final	Reasonable	5	0	0	5	0	0
Operational	NDR - New Business Rates System	1	Final	Reasonable	6	0	0	3	3	0
Operational	Business Continuity	1	Final	Reasonable	4	0	0	4	0	0
Governance, Fraud & Corruption	Lean Thinking Benefit Realisation	2	Removed	N/A	0	0	0	0	0	0
ICT	Telephony	2	Final	Reasonable	6	0	1	5	0	0
Operational	Council Tax Collection	2	Draft		0	0	0	0	0	0
Operational	Housing & Council Tax Benefit	2	Final	Substantial	1	0	0	0	1	0
Operational	Yeovil Innovation Centre	2	Final	Reasonable	9	0	1	7	1	0
Operational	Private Sector Housing - Environmental Health	2	Final	Substantial	1	0	0	0	1	0
Operational	Key Income Stream Management	2	Final	Substantial	2	0	0	1	1	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5= Major			1 = Minor	
						Recommendation				
						5	4	3	2	1
Operational	S106 Discharge of Planning Obligations	2	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Contract Compliance - PPR Compliance	3	Removed	N/A	0	0	0	0	0	0
Governance, Fraud & Corruption	Leisure Centre / Hub Contract Compliance	3	Removed	N/A	0	0	0	0	0	0
Grant Certification	Repair and Renewal Grant	3	Final	Non Opinion	0	0	0	0	0	0
ICT	Physical and Environmental Controls	3	Discussion Document		0	0	0	0	0	0
Operational	New Payroll System	3	Final	Reasonable	7	0	0	7	0	0
Operational	Aged Debt Management	3	Final	Reasonable	3	0	0	3	0	0
Operational	Asset Register & Land Record Management	3	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Property Services	4	Final	Partial	5	0	2	3	0	0
Governance, Fraud & Corruption	Imprest Accounts	4	Final	Reasonable	4	0	0	2	2	0
Governance, Fraud & Corruption	Ninesprings Cafe	4	Final	Reasonable	3	0	0	2	1	0
Operational	Mobile and Remote Working_H&S	4	Final	Reasonable	6	0	0	6	0	0
Operational	Risk Strategy & TEN Risk Management	4	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Procurement Cards	4	Final	Reasonable	3	0	0	2	1	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5= Major			1 = Minor	
						Recommendation				
						5	4	3	2	1
2016/17										
Operational	TBA to replace Corporate Procurement Cards completed 2015/16	1	Not Started		0	0	0	0	0	0
Advice	Follow Up Contingency	1	Not Started		0	0	0	0	0	0
ICT	TBA - IT Provision	1			0	0	0	0	0	0
Operational	Culture	1	Not Started		0	0	0	0	0	0
Operational	Yeovil Cemetery & Crematorium Annual Accounts	1	In Progress		0	0	0	0	0	0
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts	1	In Progress		0	0	0	0	0	0
Operational	Safeguarding	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Corporate Governance	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Financial Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Risk Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Performance Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Commissioning & Procurement	2	Not Started		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
Healthy Organisation	Programme & Project Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Information Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	People & Asset Management	2	Not Started		0	0	0	0	0	0
Operational	Delivering Cost Savings & Increasing Income	2	Not Started		0	0	0	0	0	0
Operational	Land Charges	2	Not Started		0	0	0	0	0	0
Operational	Key Income Streams	3	Not Started		0	0	0	0	0	0
Operational	Corporate Health & Safety	3	Not Started		0	0	0	0	0	0
Key Control	Provision - Key Financial Control Audit	3	Not Started		0	0	0	0	0	0
Operational	Local Council Tax Support Scheme	3	Not Started		0	0	0	0	0	0
Operational	Scheme of Delegation	3	Not Started		0	0	0	0	0	0
Operational	Leisure East Devon	4	Not Started		0	0	0	0	0	0
Operational	Data Protection	4	Not Started		0	0	0	0	0	0
Operational	Elections	4	Not Started		0	0	0	0	0	0
Operational	Lufton Vehicle Workshop	4	Not Started		0	0	0	0	0	0

Schedule of potential significant risks identified from Internal Audit work in the period Quarter 4

Ref	No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action	Manager's Update (Date)
			There were no significant risks in the period.					

Summary of key points related to 'Partial Assurance' reviews

Audit Tittle	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
Property Services	<p>A partial Assurance rating was given for the following reasons:</p> <ul style="list-style-type: none"> Annual condition surveys are not on schedule. These surveys play an important role in identifying faults and informing plans for maintenance, alongside SSDC officers reporting faults. The condition surveys do not always definitively state what actions are required or when these actions will take place. In addition to this, they are not updated to record any changes or slippages to maintenance plans. There is a risk that due to a lack of up to date information, faults may go unidentified and unreported for a significant period of time which could result in an injury or increased costs for repairs. There is concern that it is not always clear to Property Services how repair responsibility is delegated for SSDC properties occupied by tenants. Tenancies may end without the knowledge of Property Services. 	<p>The Property and Engineering Services Manager has agreed to ensure that formal guidance for key security and lock changing procedures is made available to all SSDC staff who are responsible for property security.</p> <p>The Property and Engineering Services Manager has agreed to ensure that condition surveys are conducted and monitored in accordance with specific timescales for all SSDC properties. There has been some slippage in the condition surveys with the surveyors being involved in other projects. This will be addressed and surveys allocated to various staff and monitored with specific timescales.</p> <p>The Property and Engineering Services Manager has agreed to ensure that condition surveys are regularly reviewed and updated to definitively state what action is required and when this action is due, and to record any changes and slippages to the plan.</p> <p>The Property and Engineering Services Manager has agreed to ensure that in advance of the implementation of the new HEAT system, checks are carried out to gain assurance that those issues previously identified with the existing PSR system</p>	<p>30th September 2016</p> <p>31st July 2016</p> <p>31st July 2016</p> <p>31st August 2016</p>	Quarter 4

Audit Tittle	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
	<ul style="list-style-type: none"> SSDC property security is generally well managed, however there is a lack of formal guidance for key handling and lock changes. 	<p>have been rectified and that appropriate training on the use of the new HEAT system has been administered. The new system will not be allowed to replace the existing PR system until we are satisfied it is fit for purpose.</p> <p>The Property and Engineering Services Manager has agreed to ensure that the Estates Asset Management system is utilised in order to view repair responsibilities for SSDC rented properties and to inform staff of tenancy end dates. Potential training and access to the Estate Asset Management system to be investigated.</p>	31 st October 2016	

Agenda Item 8

Internal Audit Annual Report and Opinion for 2015/16

Head of Service: Gerry Cox, Chief Executive - SWAP
Lead officer: Moya Moor, Assistant Director - SWAP
Contact Details: Moya.moore@southwestaudit.co.uk

Purpose of the Report

This report provides an update on the position of the Internal Audit Plan at the end of 2015/16 and also provides Internal Audit's overall Opinion on the systems of internal control at South Somerset District Council.

Recommendation

To note the content of the Internal Audit Annual Report and Opinion.

Background

The Audit Committee agreed the original 2015/16 Internal Audit Plan at its March 2015 meeting. A report on the plan progress was provided in November 2015 (Half year) and in February 2016 (for Quarter 3).

Financial Implications

There are no financial implications associated with these recommendations.

Background papers: None.

South Somerset District Council

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Annual Opinion Report 2015/16

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Purpose

The Accounts and Audit Regulations (England) 2011 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.

Summary

The Assistant 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. This report summarises the activity of SWAP for the 2015/16 year.

Internal Audit Annual Opinion 2015/16

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

Over the year SWAP have found Senior Management of South Somerset District Council to be supportive of SWAP findings and responsive to the recommendations made. In addition there is a good relationship with Management whereby they feel they can approach SWAP openly in areas where they perceive potential problems as well as welcome the opportunity to take on board recommendations for improvement. The follow up work confirms the responsive nature of management at South Somerset District Council in implementing agreed recommendations to mitigate exposure to areas of significant risk.

In 2015/16 there have been fewer reviews that have presented significant concerns than the previous year. Where priority findings have been identified, on the whole these have been appropriately addressed, confirming the responsive nature of management. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit.

I have considered the balance of 2015/16 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 I have certain concerns regarding some aspects of the control environment, I do not consider there to be any areas of significant corporate concern.

Summary of Audit Work 2015/16

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 2015/16 and the final outturn for the financial year. In total, 26 will be 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 26 reviews in the revised 2015/16 audit plan, they are broken down as follows:

- | | |
|----------------------------------|----|
| • Operational Audits | 13 |
| • IT | 3 |
| • Governance, Fraud & Corruption | 6 |
| • Follow-up | 2 |
| • Grant Certification | 2 |

Summary of Audit Work 2015/16

Significant Corporate Risks

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



Significant Corporate Risks

Appendix A sets out the definition of the 4 Risk Levels applied to any corporate Risks we identify.

We are pleased to report that no Corporate Risks were assessed as 'High' or 'Very High' in the year.

Summary of Audit Work 2015/16

SWAP Performance - Summary of Audit Opinions

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

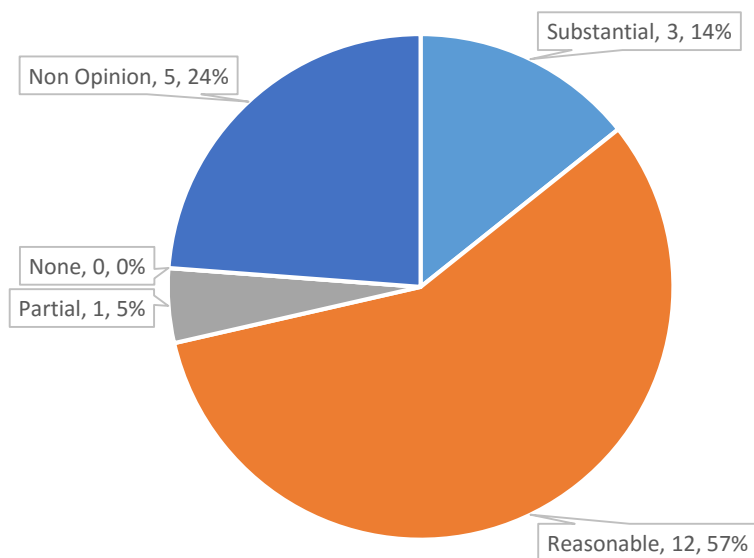
- Substantial
- Reasonable
- Partial
- None
- No Opinion



Summary of Audit Opinion

At the time of writing this report 5 audits had yet to reach Final reporting stage. The following diagram therefore includes information for completed audits only and an update on the outstanding audits will be provided as part of the next Audit update. For the 5 audits yet to be completed there are no significant issues to bring to your attention from the testing completed so far. For comparison, in 2014/15 there were 5 Substantial Assurance Audits, 7 Reasonable Assurance Audits and 2 Partial Assurance Audits.

Control Assurance by Category
(including 2015/16 work completed in year)



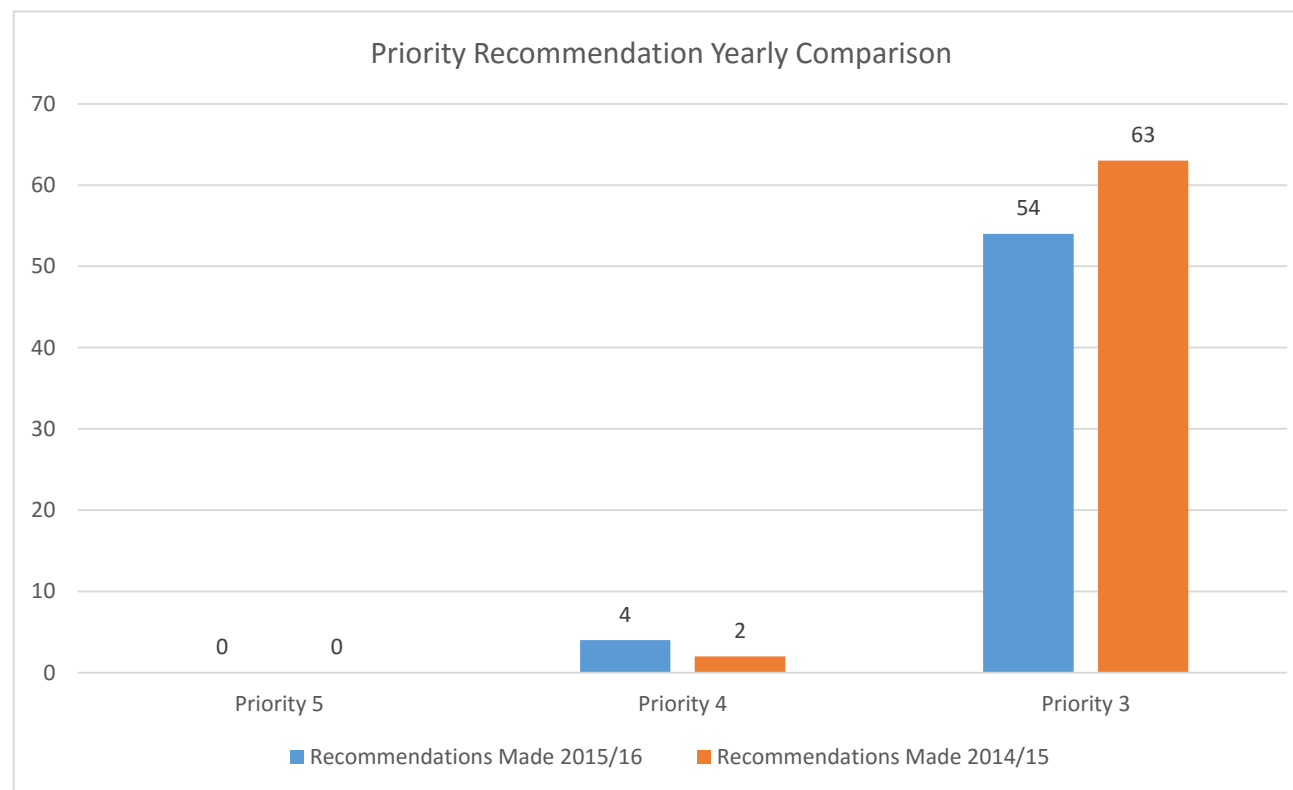
Summary of Audit Work 2015/16

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



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

Throughout the year, SWAP has strived to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost. This has included the communication and circulation of industry bulletins (such as Corporate Plan for Public Sector Audit Appointments 2015-18) and fraud prevention alerts wherever possible. We will also share the outcomes of any benchmarking undertaken across our SWAP Partner base. SWAP also aim to share the results of emerging areas of risk, or the findings from relevant audit reviews undertaken at our Partners, to enable the sharing of best practice and comparison of common findings. Examples of where we have collated and shared information to add value include:

Guidance and best practice on Information Asset Registers – this included advice on: A step by step guide to constructing an Information Asset Register and an example Information Asset Register.

Collation of the practices for debt recovery across all SWAP partners has been completed and is in the process of being anonymised so that it can be shared to help inform any revision of the Council's Debt Recovery policy.

We have highlighted the risks of not meeting the timeframes of the Planning Guarantee and provided a Planning Fees Refund Partner Summary report.

SSDC is looking at options on how to govern the Crematorium function. SWAP Provided a summary of how other authorities manage their crematorium functions, e.g. by integrating it into the general budget or by having a separate body.

We circulated a summary of risk registers from those councils that attend the South West Risk Managers Group to use as a comparison.

SWAP prepared a comparison of Partner Council's systems for Expense/Travel Claims to share with SSDC.

Plan Performance 2015/16

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



SWAP Performance

SWAP now provides the Internal Audit service for 14 Councils 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 2015/16 year (as at 8 June 2016) are as follows;

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress	76% 24% (2014/15 95% of plan completed at this stage with 1 Audit in Progress)
<u>Draft Reports</u> Issued within 5 working days	83% (Average Days of 3) (2014/15 60%)
<u>Final Reports</u> Issued within 10 working days of discussion of draft report	69% (Average Days of 21) (2014/15 53%)
<u>Quality of Audit Work</u> Customer Satisfaction Questionnaire	83% (2014/15 77%)

The Assistant Director for SWAP 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 Conformance with the Standards.

An extract from the recent review confirming this has been included at Appendix C for information.

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.

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.

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




Audit Framework Definitions


- 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.

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.
Very 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	5 = Major ← 1 = Minor				
						Recommendation				
						5	4	3	2	1
Follow Up	Printing & Copying Follow Up	1	Final	Non Opinion	0	0	0	0	0	0
Follow Up	Streetscene Enforcement Follow Up	1	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Yeovil Cemetery & Crematorium Annual Accounts	1	Final	Non Opinion	0	0	0	0	0	0
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts 2015-16	1	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Expenses & Reimbursements Fraud Prevention	1	Final	Reasonable	4	0	0	4	0	0
ICT	Mobile and Remote Working_SSDC	1	Final	Reasonable	5	0	0	5	0	0
Operational	NDR - New Business Rates System	1	Final	Reasonable	6	0	0	3	3	0
Operational	Business Continuity	1	Final	Reasonable	4	0	0	4	0	0
Governance, Fraud & Corruption	Lean Thinking Benefit Realisation	2	Removed	N/A	0	0	0	0	0	0
ICT	Telephony	2	Final	Reasonable	6	0	1	5	0	0
Operational	Yeovil Innovation Centre	2	Final	Reasonable	9	0	1	7	1	0
Operational	Private Sector Housing - Environmental Health	2	Final	Substantial	1	0	0	0	1	0
Operational	Key Income Stream Management	2	Final	Substantial	2	0	0	1	1	0
Operational	Housing & Council Tax Benefit	2	Final	Substantial	1	0	0	0	1	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major			1 = Minor	
						Recommendation				
						5	4	3	2	1
Operational	Council Tax Collection	2	Draft		0	0	0	0	0	0
Operational	S106 Discharge of Planning Obligations	2	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Contract Compliance - PPR Compliance	3	Removed	N/A	0	0	0	0	0	0
Governance, Fraud & Corruption	Leisure Centre / Hub Contract Compliance	3	Removed	N/A	0	0	0	0	0	0
Grant Certification	Repair and Renewal Grant	3	Final	Non Opinion	0	0	0	0	0	0
Operational	New Payroll System	3	Final	Reasonable	7	0	0	7	0	0
Operational	Aged Debt Management	3	Final	Reasonable	3	0	0	3	0	0
ICT	Physical and Environmental Controls	3	Discussion Document		0	0	0	0	0	0
Operational	Asset Register & Land Record Management	3	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Property Services	4	Final	Partial	5	0	2	3	0	0
Governance, Fraud & Corruption	Imprest Accounts	4	Final	Reasonable	4	0	0	2	2	0
Governance, Fraud & Corruption	Ninesprings Cafe	4	Final	Reasonable	3	0	0	2	1	0
Operational	Mobile and Remote Working_H&S	4	Final	Reasonable	6	0	0	6	0	0
Operational	Risk Strategy & TEN Risk Management	4	In Progress		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
Governance, Fraud & Corruption	Procurement Cards	4	Final	Reasonable	3	0	0	2	1	0

The below is the key summary from the recent External Quality Assessment of SWAP Internal Audit Activity, carried out by the Devon Audit Partnership:

As requested by Gerry Cox, Chief Executive of SWAP, Devon Audit Partnership conducted an external quality assessment of the internal audit activity of the South West Audit Partnership (SWAP). The principal objectives of the quality assessment were to assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards), evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter to its partners), and identify opportunities to enhance its management and work processes.

It is our overall opinion that the internal audit activity generally conforms with the Standards and Code of Ethics. For a detailed list of conformance with individual Standards, please see Attachment A. We have identified some opportunities for further improvement, details of which are provided in this report, but none of these issues represent a failure to meet with the Standards.

The IIA's Quality Assessment Manual suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

SWAP is a well-established provider of professional internal audit services to a number of public sector organisations. The internal audit activity meets the Standards and SWAP management regularly look to ways to improve the service they provide (e.g. by developing the "healthy organisation" approach) and add value to all of their partners and clients. A well-developed Quality Assurance Improvement Plan is in place that captures areas for development and provides a good record of progress against targets. Consequently, our comments and recommendations are intended to build on an already efficient and effective internal audit provider.

Agenda Item 9

Review of Internal Audit

Assistant Director: Donna Parham, Finance and Corporate Services
Lead Officer: Donna Parham
Contact Details: Donna.parham@southsomerset.gov.uk or (01935) 462225

Purpose of Report

To inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2015-16.

Recommendation

That the Audit Committee notes the findings of the review.

Background

The South West Audit Partnership (SWAP) is a company wholly owned by its local authority partners that provides the Internal Audit service to all of the six Somerset authorities, Dorset County Council, Weymouth and Portland Borough Council, West Dorset District Council, Forest of Dean District Council, East Devon District Council, Wiltshire Council, and Herefordshire Council as well as a number of related bodies such as the Somerset Waste Partnership.

Internal audit forms a part of the corporate governance and internal control framework that provides accountability to stakeholders on all areas of the Council Plan. Their opinion on the adequacy and effectiveness of the Council's internal control framework forms a part of the evidence used in preparing the corporate Annual Governance Statement (AGS) for 2015-16, which will be published as part of the Council's Statement of Accounts in July 2016.

There are several statutory requirements regarding Internal Audit:

- The Accounts and Audit (England) Regulations 2011 require authorities to review the effectiveness of the system of Internal Audit. They also state "A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control."
- Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the proper administration of those affairs." CIPFA has defined "proper administration" in that it should include "compliance with the statutory requirements for accounting and internal audit"
- The CIPFA Statement on the Role of the Chief Finance Officer in Local Government states that the Chief Finance Officer (CFO) must:
 - Ensure an effective internal audit function is resourced and maintained;

- Ensure that the authority has put in place effective arrangements for internal audit of the control environment;
- Support the authority's internal audit arrangements: and;
- Ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

Therefore it is important for the findings of the review of the effectiveness of the system of Internal Audit are considered by a committee such as the Audit Committee as a part of the consideration of the system of internal control. This review has to be carried out by someone independent of SWAP.

Compliance With PSIAS and Local Government Application Note

The Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note set out how an internal audit function should be fulfilled. The main focus is the internal audit service itself, but the Standards also refer to the wider elements of the "system of internal audit", including the importance of the direct relationship between Internal Audit and the Audit Committee. The Standards cover:

- Purpose, authority, and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality Assurance and Improvement Programme;
- Managing the Internal Audit Activity;
- Nature of Work;
- Engagement Planning;
- Performing the Engagement;
- Communicating Results;
- Monitoring Progress.

The Audit Charter for 2015-16 was approved by the Audit Committee in June 2015 to comply with these new requirements. SWAP have a Quality Assessment Improvement Plan in place (as attached).

The Review of SWAP

South Somerset District Councils' review of Internal Audit has been carried out by the Assistant Director – Finance and Corporate Services (the Council's S151 Officer). The findings have been reported to the Corporate Governance Group as part of the overall evaluation and supporting evidence for the Annual Governance Statement. The following criteria were used in the evaluation:

- Annual report and opinion of the Head of Internal Audit;
- Audit plan and monitoring reports;
- Reports on significant findings;
- Key performance measures and service standards;
- Reports by the Council's External Auditor covering the extent of reliance placed on internal audit work on key financial systems.

It was found that overall the team performed well and that this view was supported by the comments of external auditors and client satisfaction. The table below shows some of the overall performance of the service during the year compared to the previous three years:

Performance Measure	2012/13	2013/14	2014/15	2015/16
Levels of satisfaction from feedback questionnaires	78.1%	85%	77%	83%
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	90% (36 out of 40)	86% (31 out of 36)	90% (19 out of 21)	76% (21 out of 26)
Total completed audits and reviews	40 (4 in progress)	36 (5 in progress)	21 (2 in progress)	21 (5 in progress)
Cost of audit service to SSDC	£117,300	£117,300	£104,140	£104,140
Number of actions for improvements agreed by managers	133	140	79	xx

1. The table shows that the satisfaction with the audits carried out at SSDC is 83%, and is above the target set by the Board where 77% is 'good'.
2. The audit days for 2014/15 were reduced by 12% (reduction of 51 audit days) which has resulted in a reduced number of audits planned.

Service Standards

In assessing SWAP's performance it is important to review the standards of service and that each authority is afforded the same standards and also senior officer time. The following table outlines the minimum standards to be introduced and whether they would have been delivered for South Somerset District Council had they been in place:

Service Standard	Expected Standard	Delivery of Standard
Attendance by SWAP Assistant Director at Audit Committee	At least 4 times per annum	Yes
Liaison meetings with S151 Officer and Audit Manager	6 times per annum	Yes
Agreement of Audit Plan:		
Prepared for Management Board/S151	By mid January each year	This was complied with.
Prepared for Audit Committee	By end January each year	This was complied with.
Audit Plan monitoring reports	4 times per annum including Annual Report	This was complied with.
Agreement of Audit Charter:		
Prepared for Management Board/S151	By mid January each year	This was complied with.
Prepared for Audit Committee	By end January each year	This was complied with.
To assist with member/officer training in audit and governance	Once per annum	Member Training was provided by SWAP to the Audit Committee in March 2015.

2015/16 Action Plan

The following shows progress *in italics* against the actions to be completed in 2015/16:

- To update and maintain the Quality Assurance and Improvement Programme (update attached).

Opinion

It is the opinion of the Assistant Director – Finance and Corporate Services and the Corporate Governance Group that the system of internal audit is effective.

Actions to be Completed in 2016/17

- To update and maintain the Quality Assurance and Improvement Programme (update attached).

Financial Implications

The financial implications can be found from existing budgets



devon **audit** partnership

SOUTH WEST AUDIT PARTNERSHIP (SWAP)

External Quality
Assessment of SWAP
Internal Audit Activity

Self-assessment with external
independent validation

DRAFT

OFFICIAL
March 2016



Auditing for achievement

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Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk.

Confidentiality and Disclosure Clause

This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within the organisation, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

South West Audit Partnership (SWAP)

External Quality Assessment of SWAP Internal Audit Activity Self-assessment with External Independent Validation

March 2016

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1 Executive Summary

- 1.1 As requested by Gerry Cox, Chief Executive of SWAP, Devon Audit Partnership conducted an external quality assessment of the internal audit activity of the South West Audit Partnership (SWAP). The principal objectives of the quality assessment were to assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards), evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter to its partners), and identify opportunities to enhance its management and work processes.
- 1.2 The South West Audit Partnership Ltd (SWAP) is a company limited by guarantee providing internal audit services to local authorities, police and fire authorities, schools and other quasi-government entities in the south and west of England. SWAP is a local authority owned company.

2 Opinion as to conformance with the Standards

- 2.1 It is our overall opinion that the internal audit activity generally conforms with the Standards and Code of Ethics. For a detailed list of conformance with individual Standards, please see Attachment A. We have identified some opportunities for further improvement, details of which are provided in this report, but none of these issues represent a failure to meet with the Standards.

- 2.2 The IIA's Quality Assessment Manual suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

3 Scope and Methodology

- 3.1 As part of the preparation for the quality assessment, SWAP prepared documents and detailed information to support its own self-assessment. This included surveys of staff and a representative sample of SWAP partners and other organisations who work with SWAP (e.g. external audit providers).
- 3.2 Part of the external validation process involved speaking with a wide range of partner officers to seek their thoughts and views on how SWAP meets expected targets, and their view on the quality of service being provided. In addition, interviews took place with SWAP executive, management and staff to discuss arrangements and to confirm that SWAP's expected practices are being operated in practice.
- 3.3 SWAP's approach to risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the internal audit activity's workpapers and reports were reviewed.

4 Recommendations and Observations - Summary

- 4.1 SWAP is a well established provider of professional internal audit services to a number of public sector organisations. The internal audit activity meets the Standards and SWAP management regularly look to ways to improve the service they provide (e.g. by developing the "healthy organisation" approach) and add value to all of their partners and clients. A well developed Quality Assurance Improvement Plan is in place that captures areas for development and provides a good record of progress against targets. Consequently, our comments and recommendations are intended to build on an already efficient and effective internal audit provider.
- 4.2 Highlights of the more significant recommendations and observations are summarised below, with detailed descriptions following later in the report.

5 Observations and Detailed Recommendations

- 5.1 We interviewed a wide range of people to gain their insight and views on how SWAP operates and how they adhere to the standards. The interviewees ranged from a recent entrant at auditor level, to Section 151 officers and Audit Committee chairs. The input from all was very much appreciated. A summary of some of the key thoughts from the interviews (anonymised) has been provided at appendix B.
- 5.2 The comments made help to put into context how well some SWAP processes and arrangements are being applied in practice.
- 5.3 Overall we found that partners and clients were very appreciative of the service being provided and considered that a good, cost effective, service is being provided. Some specific quotes from the processes are as follows:-
- *As a customer, I consider SWAP provide good value.*
 - *They answer the difficult questions – do not duck issues.*
 - *Seen as a useful tool for management, and involved at development stage rather than after the event.*
- 5.4 There were also some areas where some clients / partners felt that further development would further enhance the service provided. Some specific comments made included:-
- *We are a demanding client, and see nothing wrong with that, but SWAP need to manage expectations and let us know what is realistic and achievable.*
 - *Competent and professional, but could further develop the concept of “added value”.*
- 5.5 **We recommend** that SWAP management consider these comments, and, in particular, be mindful of the need to manage partner expectations and ensure that every opportunity to add value is taken and fully communicated with partners.
- 5.6 Feedback from staff was also, on the whole, positive, with staff fully appreciating the role they fulfil and the service that they provide to the partners. We noted that SWAP have undertaken a significant restructure in the last 12 months or so, so to get generally positive feedback is a good sign that a difficult process has been generally well managed.
- 5.7 In terms of development, we did pick up that staff indicated that the restructure has had a significant impact on all staff, and there were some points arising for the restructure that could be improved upon. Some specific comments made included
- *Introducing new people – was not until I started studying that I understood the “why” – I was shown the “how” but not the “why”.*
 - *100 staff movements last year – this was too much – have we asked ourselves why?*

- 5.8 Staff recognised good training opportunities that have been provided, but some did question if training should be focused as much as it is on professional audit training. There was a feeling that other skills (such as ICT / management) are also required to provide a “rounded” organisation, but maybe not so much emphasis is given to these areas.
- 5.9 **We recommend** that, now the restructure has had time to settle down, SWAP management consider the induction process for new staff, training for existing staff and also look to encourage a period of stabilisation so that the benefits of staff changes can make a real benefit to partners.
- 5.10 We set out below (attachment A) our assessment of SWAP against the Standards. We are pleased to report that we consider SWAP Generally Conforms with all elements of the Standards.
- 5.10 We have added comments to support our conclusions, and, where applicable made recommendation as to how processes and procedures could be further strengthened.

6 Inherent Limitations

- 6.1 The opinions and recommendations contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed

7 Acknowledgements

- 7.1 We would like to express our thanks and appreciation to all those who provided support and assistance during the course of this assessment process.

Robert Hutchins
Head of Partnership
March 2016

Attachment A – SWAP - Quality Assessment Evaluation Summary

(GC = Generally Conforms, PC = Partially Conforms, DNC = Does Not Conform)

Quality Assessment Evaluation Summary—Overall Evaluation	GC	PC	DNC
OVERALL EVALUATION			

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
1000	Purpose, Authority, and Responsibility			
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter	Y		

Internal Audit Charters are presented to all partners and we consider that the Charters effectively meet requirements.

However, we noted that, for local authority partners, no reference is made in the Charter to the Accounts and Audit Regulations 2015 (1) (see below). **Recommendation** Reference to the Accounts and Audit Regulations 2015 in Audit Charters may help to further strengthen understanding of the role and importance of the Internal audit function.

(1) The Accounts and Audit (England) Regulations 2015, state:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

There may also be scope to consider a section in the Charter to deal with “non-conformance”. The Charter gives the right of access to records / employees etc, but in the (unlikely) event that this is prevented it would be helpful to have in place a process for how such issues would be addressed.

1100	Independence and Objectivity			
1110	Organisational Independence	Y		

From April 1st 2013, SWAP has been established as a publicly owned Company, Limited by Guarantee. SWAP is a company controlled within the meaning of the 1989 Local Government and Housing Act. Each Partner organisation has an equal vote on the Board.

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
<p>Being a separate organisation helps to ensure that SWAP is independent from the partners that it reports upon.</p> <p>There is a limited risk that, as SWAP is reliant on partners to remain within the partnership that they will report in a way that "appeases" the partner; however we found no evidence that SWAP staff or management would be affected by such a situation.</p> <p>It is important that each partner recognises that their Internal audit function is provided by SWAP; partner staff should be fully aware of who and how to make contact with their Internal Audit team. At Somerset CC we found that the web page referring to internal audit was somewhat out of date (referring to the 2003 Account and Audit regs) and states that the "agreement with SWAP runs until March 2015". SWAP and Somerset CC staff are aware of the issue but have not been able to enable changes to the web page to be made.</p> <p>Recommendation - SWAP and Somerset CC staff continue in their efforts to update the Somerset CC web page to accurately reflect internal audit arrangements.</p>				
1111	Direct Interaction with the Board	Y		
<p>The SWAP Board meets on a regular (quarterly) basis and discusses issues relating to the performance of SWAP.</p> <p>For each partner organisation, SWAP will interact with the relevant senior management team and appropriate committee; for SWAP partners the Audit Committee is seen as the "Board" in respect of the IIA standards.</p> <p>We found good evidence of regular and effective interaction between the Audit Committee at SWAP partner organisations and SWAP.</p>				
1120	Individual Objectivity	Y		
<p>All SWAP staff, including those on temporary contracts, are required to annually sign a Declaration of Independence and Ethical Standards.</p>				
1130	Impairment to Independence or Objectivity	Y		
<p>SWAP management have confirmed that they are unaware of any Impairment to Independence of Objectivity and we agree with this assessment.</p>				
1200	Proficiency and Due Professional Care			
1210	Proficiency	Y		

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
<p>All staff have appropriate Job Descriptions and supporting Person Specifications.</p> <p>SWAP also utilise the IIA Key Competencies Matrix which is used by Managers to ensure staff have the necessary credentials. We noted that staff Development Review procedures are currently under review and will be linked to the revised 10 Core Competencies produced by the IIA – Auditors, Seniors and Assistant Directors have been identified under each of the categories.</p>				
1220	Due Professional Care	Y		
<p>SWAP ensure due professional care is applied when considering and producing risk assessed annual plans and this is further supported through desk review, work programme design and review/approval by a Lead Auditor.</p> <p>Terms of Reference for assignment reviews are agreed and signed off by the Client, and SWAP have a Performance and Quality Review Process to ensure necessary standards are being maintained.</p>				
1230	Continuing Professional Development (CPD)	Y		
<p>SWAP have a clear programme to promote CPD for all its staff. This includes attendance at IIA and CIPFA events, and attendance and contribution to other organisations such as County Chief Auditor Network (CCAN) and West of England Audit Group (WOEAG).</p> <p>However, in our discussions with staff, it was found that although professional development is well supported, development in other skills, particularly management skills, is not so well developed. An example given was that although managers and supervisors were instructed as to the new <i>process</i> to be followed for one to one and appraisal meetings, this was somewhat limited to understanding the process, rather than on how to effectively manage outputs (improve moral, communications, client interaction etc)</p> <p>Recommendation - that consideration be given to providing opportunities for managers and supervisors to develop their management skills as well as supporting CPD.</p> <p>SWAP carry out regular staff surveys. The results from these surveys will be most useful in identifying potential issues and enabling management to prevent these from becoming issues.</p>				
1300	Quality Assurance and Improvement Program			
1310	Requirements of the Quality Assurance and Improvement Program (QAIP)	Y		
<p>The QAIP has been in place for some time and is well developed. The plan is shared with the Board and a summary is provided to each partner via the Annual Internal Audit Report.</p> <p>The QAIP is a detailed document that captures a wide range of developmental opportunities for SWAP. Our review found that it had been kept up to date, reflects the current challenges for SWAP and provides good evidence of how SWAP management are ensuring the “continuous improvement” of the partnership.</p>				

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
1311	Internal Assessments	Y		
<p>The Quality Assurance and Improvement Program (QAIP) is reviewed at every Board meeting as are the Balanced Scorecard, Budget and Risk Register. Part of the process has included full discussion on the process to be followed.</p> <p>The QAIP is considered a live document which is updated in response to development which may be identified through its regular review at Board meetings. On a periodic basis the QAIP is also reported to Partner Audit Committees.</p> <p>SWAP confirm that the internal audit activity “conforms with the International Standards for the Professional Practice of Internal Auditing” on the front page of the SWAP Website and in all reports to Audit Committees.</p> <p>SWAP internal processes have already identified that whilst "the Charters refer to work being carried out in accordance with the Standards, they do not specifically refer to SWAP’s conformance. This will be addressed at the next update".</p> <p>In addition, engagement reports have not referred to SWAP’s conformance either but this has already been addressed in a revised report template.</p> <p>Recommendation – identified management actions need to be completed as planned.</p>				
1312	External Assessments	Y		
<p>The external assessment process has been considered by the Board, and it has been agreed to complete a “Self- Assessment with External Validation”. Although the Standards require a review at least every five years It has been agreed to complete an external review every 3 years.</p>				
1320	Reporting on the Quality Assurance and Improvement Program	Y		
See comments at 1310 above				
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	Y		
See also 1311 above.				
1322	Disclosure of Non-conformance	Y		
There are no issues of non-conformance to report.				

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
2000	Managing the Internal Audit Activity			
2010	Planning	Y		
<p>The internal audit manual provides guidance to new and existing staff on how audit planning should take place. The guidance provided is good, and should ensure a consistent and professional approach across all SWAP partners.</p> <p>However, we do consider that the planning guidance could be further strengthened and understand that this is expected to take place in the near future. At this time it would be appropriate to consider the following comments.</p> <ul style="list-style-type: none"> i) The introduction in the document refers to the Public Sector Internal Audit Standards; as SWAP have a number of local government partners it may be appropriate to also make reference to the CIPFA Local Government Application Note (LGAN). ii) The document refers to <i>"Directed work - work that we have no choice in doing. This list is not exhaustive but this work generally focuses around the key financial systems work External Audit place reliance upon "</i> – the phrase “directed work” is not how internal and external currently coordinate audit activity and a new phrase should be considered. In addition wording such as "no choice In doing" could be replaced by "work for which it is important that IA provide an annual assurance opinion" or something similar. iii) The planning guidance also refers to <i>"Requested work - work that is specifically requested by Directors or Senior Managers during this process. Consideration will be given to any work that services may require on a consultancy basis"</i>. We were a little confused by this statement - is such consultancy work considered to be part of the IA plan, or is it seen as over and above the plan? Some clarity may assist staff. iv) Finally, we found that the guidance refers to "Assistant Directors will..... be in a position to go to each meeting armed with potential risks". It is a minor point, but the word "armed" may benefit from being replaced with "well informed" - after all this should be a discussion, not a battle. <p>Recommendation - that the planning guidance by updated to reflect current best practice.</p>				
2020	Communication and Approval	Y		
<p>We found good evidence to support that SWAP management and staff communicate the risk based internal audit plan, and findings from work assignments in a professional and informative way.</p>				
2030	Resource Management		Y	
<p>SWAP have recently undertaken a restructure of staff to ensure that it can continue to provide a high</p>				

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
<p>quality, professional and effective service within the financial envelope provided by the partners.</p> <p>The restructure has had an impact on all levels of staff; there have been a number of staff changes as a result.</p> <p>New staff members we spoke to had already gained an excellent understanding of the principles of internal audit, and how to ensure partner requirements are addressed, and we feel confident that such new staff will continue to develop and be an asset to SWAP and partners</p> <p>However, the change process has led to some delays in audit deliverability as new staff are recruited and effectively trained. By and large Board members that we spoke to acknowledged that some short term downturn in performance was to be expected, but also considered that perhaps senior SWAP staff had not effectively "managed expectations" or adjusted plans to allow for the change process to be delivered. One Interviewee felt that SWAP could have made better efforts to recruit short term replacements to fill gaps and ensure that plans were fully delivered.</p> <p>SWAP staff acknowledged that the restructure has had an impact of deliverability in the last year or so, and that there has been a tendency to "roll forward" uncompleted work to a future year. Such practice can be appropriate, but can also lead to an ever growing backlog that never seems to be addressed - this can in turn lead to staff unhappiness (stress) and partner dis-satisfaction. There would appear to be scope for SWAP to consider how partner expectations can be managed more effectively.</p> <p>Recommendation - SWAP staff to be mindful of the need to manage client expectations in a realistic way. It may be better to say a task cannot be completed, rather than store up a problem to future periods. Audit plans should be updated to reflect expected deliverability.</p> <p>Recommendation - SWAP should consider the way that work is rolled forward to future financial years. This may be appropriate, but there is a risk of building up increasing pressures that may become unmanageable.</p>				
2040	Policies and Procedures	Y		
<p>We found good evidence to support that Appropriate internal audit policies and procedures have been documented and communicated to staff, and that these policies and procedures are understood and used by staff.</p>				
2050	Coordination	Y		
<p>SWAP have developed assurance mapping processes for its partners to help identify where sources of assurance are being obtained and any gaps in assurance. This will help partners in directing assurance resources in the most effective way.</p> <p>Discussions with External Audit colleagues indicated that good dialogue takes place between SWAP and external audit to ensure that duplication is limited and "added value" maximised.</p>				
2060	Reporting to Senior Management and the Board	Y		

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
<p>SWAP staff ensure that identified significant corporate risks are brought to the attention of the Audit Committee. Our review of audit committee reports provided good evidence that issues are raised in a timely and effective manner, enabling “those charged with governance” to be aware of issues of concern and to ensure suitable corrective action is being taken where possible.</p> <p>Audit Committee members we spoke with confirmed that SWAP was a valued independent voice, that enabled the Audit Committee to be assured around the effectiveness of risk management arrangements but also highlighting those concerns that required further attention.</p>				
2070	External Service Provider and Organisational Responsibility for Internal Auditing	Y		
2100	Nature of Work			
2110	Governance	Y		
<p>We found that SWAP plan and undertake work that will contribute to the ongoing development of governance arrangements at their partners.</p>				
2120	Risk Management	Y		
<p>Our review found good evidence to confirm that SWAP evaluate and contributes to improving risk management arrangements at its partners.</p>				
2130	Control	Y		
<p>SWAP recognise the key role of internal audit in helping to shape the control environment at an organisation.</p> <p>Audit reviews commence with an initial meeting. Guidance on such meetings, provided to audit staff, provides a clear template to help identify key risks when setting up a review; this ensures that audit resources are directed where they can add most value and help further improve the organisation’s control, efficiency and effectiveness.</p> <p>Overall we consider that SWAP assists partner organisations in maintaining an effective control process that also helps prevent and detect instances of fraud and corruption.</p>				
2200	Engagement Planning			
2201	Planning Considerations	Y		

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
<p>We found good evidence to support that client specific requirements are taken into account when preparing the annual audit plan and when preparing the detailed brief for assignments.</p> <p>SWAP also consider the benefits for their clients when undertaking "thematic" reviews, with the wider results from work being shared (confidentially) to aid the identification of best practice and solution sharing.</p>				
2210	Engagement Objectives	Y		
<p>Engagement objectives are clearly stated on the agreed and signed off "Terms of Reference".</p> <p>The "initial meeting template" is used to record initial risk assessment and helps to steer the focus of the audit on the key issues or concerns for the organisation.</p>				
2220	Engagement Scope	Y		
<p>The engagement scope is referred to in the "terms of reference"</p> <p>As referred to above, an "initial meeting template" has been developed that further helps to capture the risks facing the service or department and helps to ensure the engagement addresses those key concerns.</p> <p>This initial meeting will also consider the systems, records and key personnel who will be involved in the audit.</p>				
2230	Engagement Resource Allocation	Y		
<p>SWAP has sound practices in place to ensure that the right person is allocated the right resources to complete the assignment to the quality expected.</p> <p>It is always difficult to determine the resources required for a review, as a number of factors will influence the time required to complete each element (test) to the expected standard. There will be "swings and roundabouts" in the process, with some reviews taking less time than planned and others taking longer, however overall we conclude that SWAP do make every effort to ensure resource allocation is right at the outset.</p> <p>Feedback from customers and staff is also obtained to help in future assignment planning.</p>				
2240	Engagement Work Program	Y		
<p>A detailed work programme is prepared for each engagement. This is recorded on the MKi system, which is used to capture evidence, the auditor's findings and conclusions and managerial review.</p>				
2300	Performing the Engagement			

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
2310	Identifying Information	Y		
<p>Staff are well trained in the approach of Internal audit. The audit programme will show the areas require testing and audit working papers and supporting evidence is recorded for each risk / test area, showing a good trail of how the auditors conclusions was achieved. All working papers and supporting evidence is recorded on MKi.</p>				
2320	Analysis and Evaluation	Y		
<p>Our review confirmed that conclusions and engagement results are based on appropriate analyses and evaluations.</p>				
2330	Documenting Information	Y		
<p>Information is held on the MKi system which provides a secure storage facility.</p> <p>Documents are linked to the audit test, and provide a good record of evidence of how audit conclusions have been arrived at.</p>				
2340	Engagement Supervision	Y		
<p>The MKi system is used to record managerial supervision. The system requires each part of the audit programme to be signed off, highlighting those areas that are not yet reviewed. We reviewed that "quality" of the sign off in a small sample of files and found that the comments made by managers confirmed that review was of a sufficient challenging nature to ensure quality of work and also to help develop auditors, especially those new to SWAP.</p> <p>Feedback is sought from the client for each assignment completed, with the aim of the questionnaires being to gauge satisfaction against timeliness, quality and professionalism. The results of this feedback are by and large positive; for example at Somerset CC in 2014/15 the average feedback score was 82.3% (a target of 85% is set where 80% would reflect the fact that the client agreed that the review was delivered to the expected standard). Where there are individual learning points for the auditor involved, then these will be picked up as part of supervision sessions, helping to ensure that feedback is used to further enhance the service provided.</p> <p>The combined results from client feedback are then reported to the Board and partner clients, to provide evidence that auditees are satisfied with the service being provided.</p> <p>However, there may be scope to improve reporting in this area further. For example we noted that the SWAP Annual report provides for a section on "the numbers" and financial performance, but does not provide information on the feedback received from customers, and no reference is made on the SWAP website of customer views and / or feedback.</p> <p>Recommendation - SWAP should consider further publicising customer feedback and views to help demonstrate that the "views of the customer" are taken into account when developing the service.</p>				

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
2400	Communicating Results			
2410	Criteria for Communicating	Y		
Communication of the progress and results of engagements are appropriate based on the nature of the engagement and the needs of the client. Reports state the engagement's objectives and scope as well as conclusions, recommendations, and action plans.				
2420	Quality of Communications	Y		
<p>Our review concluded that SWAP have effective quality assurance arrangements that ensure that engagement communication is accurate, objective, clear, concise, constructive, complete, and timely. However, we did note that the Somerset County Council 2014-15 Annual Report did contain some minor errors. (for example page 7 refers to "53 reviews that have a final report" however the accompanying pie chart shows 56 reviews) but such issues are minor and not seen as part of a wider issue or concern.</p> <p>One key way of communicating with customers will be via the SWAP website. This has recently been refreshed, but it is recognised that the website could be further developed. Our observation was that the website was technically focused, rather than "customer" focused. It is appreciated that the partners are most likely well aware of how SWAP operate, but for new and potential customers greater details on the audit process, what to expect from SWAP, the SWAP quality standards and how to offer feedback (both positive and negative) would help enhance the website.</p>				
2421	Errors and Omissions	Y		
This part of the standards requires that "if a final communication contains a significant error or omission, corrected information is communicated to all parties". We are assured that SWAP quality assurance processes will ensure that such corrections, if needed, are suitably communicated.				
2430	Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	Y		
Please also see 1311 above.				
2431	Engagement Disclosure of Non-conformance	Y		
We are satisfied that SWAP have suitable arrangements in place that will ensure that non-conformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards will be disclosed.				

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
2440	Disseminating Results	Y		
We found suitable evidence that confirmed SWAP staff are well informed as to the reporting lines for each of the partners that they support, ensuring that results from engagements will be reported in accordance with the policy of the partner organisation.				
2450	Overall Opinions	Y		
2500	Monitoring Progress	Y		
<p>SWAP aim to assist management at all partners in monitoring internal audit results to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action</p> <p>For example, at Somerset CC, where a review has been assessed as ‘Partial’ or ‘No Assurance’, further information is provided to Members of the key issues identified and the actions agreed with management.</p> <p>At this partner SWAP reported their views on the lack of a formal process for ensuring that priority actions are seen through to completion; however it was good to see that this has since been addressed by a six monthly follow up review.</p>				
2600	Communicating the Acceptance of Risks	Y		
SWAP ensure that identified significant corporate risks are brought to the attention of the Audit Committee (see also 2060 above)				
	The IIA’s Code of Ethics	Y		

RATING DEFINITIONS

“**Generally Conforms**” means the assessor has concluded the following:

- For individual standards, that the internal audit activity conforms to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the Code of Ethics (both Principles and Rules of Conduct) in all material respects.

- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual standards and/or elements of the Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

“Partially Conforms” means the assessor has concluded the following:

- For individual standards, the internal audit activity is making good faith efforts to conform to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or element of the Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual standards within the section/category and/or elements of the Code of Ethics.
- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organisation.

“Does Not Conform” means the assessor has concluded the following:

- For individual standards, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the standard (e.g., 1000, 1010, 2000, 2010, etc.) and/or elements of the Code of Ethics (both Principles and Rules of Conduct).
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual standards within the section/category and/or elements of the Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

Feedback / comments from interviews completed.**Board Members, Senior and Operating Management**

www = what went well ebi = even better if

	A	B	C	D	E	F
Independence / governance	<p>Provide good independence.</p> <p>As a customer consider SWAP provide good value.</p> <p>Links to the Audit Cttee chair are very good.</p> <p>Very independent – value their opinion.</p>	<p>Professional and competent and do a good job, but would like more “openness” on the issues they are facing – we can help !</p> <p>Healthy Organisation work has been really useful.</p>	<p>Independence enhanced as no longer an “in house” team.</p> <p>Need to meet client’s needs – sometimes deadlines trump risk.</p>	<p>Yes, clearly demonstrate this.</p> <p>But does not always translate into “strong” recommendations.</p> <p>Seen as a useful tool for management, and involved at development stage rather than after the event.</p> <p>Good quality of presentations to the audit committee – clear and understandable.</p>	<p>Good level of independence</p>	<p>Always found to act independently.</p> <p>Happy to make direct contact with SWAP if required.</p> <p>They answer the difficult questions – do not duck issues.</p>
Staff	<p>Excellent – 90% of time. Couple of recent incidents where quality dropped from high standards – probably linked to sickness of key staff.</p> <p>Hope that quality not reliant on key people.</p> <p>SWAP have the ability to call on wide staff base to deal technical or “difficult” audits</p> <p>Restructure has had an impact; some of the people they brought in to support have not made the</p>	<p>SWAP have good access to specialists, but do they travel to all sites?</p> <p>An area for development could be commissioning (rather than contracting and procurement).</p> <p>We are a demanding client and see nothing wrong with that, but SWAP need to manage expectations and let us know what is realistic and achievable.</p>	<p>Right people at the right time at the right place.</p> <p>Restructure last year, which was generally very good. 15 staff have received promotions.</p> <p>Getting good customer feedback</p>	<p>Staff are generally very good.</p> <p>Had a restructure in last 6 months – was informed, but late in the process. Understand that some staff are a bit discontented</p>	<p>Mainly at AD level. AD has a good understanding of client and client needs, but has lost staff skills and knowledge.</p> <p>New people, who have been taken on, will be good, but need time to bed in – they lack experience.</p> <p>SWAP are now a company – if this was PWC then staff issues would not be a client issue. SWAP need to address this.</p>	<p>Always found very professional.</p> <p>Work closely with finance and management team, but have the ability to “stand back”.</p> <p>Have the skills to complete the plan, but sometimes do not meet timeframes.</p> <p>Have good access to specialists and provide good resilience.</p>

	grade.					
Management	<p>Reports – 90 % good. Sometimes (1 or 2) not really got the point.</p> <p>A little bit “low level” not addressing the higher risks.</p> <p>Bit of an “old fashioned” approach.</p> <p>Very good at presenting at Cttee.</p> <p>BUT reports had got a bit cumbersome for members at times, and possibly “bad message” got buried on page 45.</p>	<p>Aware that have a split for quality and delivery – not met the Quality person yet.</p> <p>Fantastic professionalism, but how about a wider (rounded?) view – take into account people; for example the customers receiving the service you are auditing.</p>	<p>Generally well represented at management level.</p> <p>One challenge is to help organisations develop their risk registers – not consistent quality at the moment.</p> <p>Non-opinion pieces of work – need to get the balance right and ensure we add value.</p> <p>Reporting – being looked at to see if we can improve.</p> <p>Healthy Organisation work well received.</p>	<p>Good links with the transformation process, especially at business planning stage of process.</p> <p>Deliver the plan and are flexible. Days reduced, but now more focused. Have seen a “sharing of knowledge” - but not that obvious.</p>	<p>Generally fine, and happy with what is delivered.</p> <p>Appreciate that SWAP do not have a crystal ball, but if they see a “big” issue at another client would really like an early “heads up” with the opportunity to share experience and solve issue together.</p> <p>Have been pro-active and re-active to change.</p> <p>Plan flexibility has suited both sides as there has been a need to slip / change reviews.</p> <p>Appreciated the skills to complete investigations.</p>	<p>Provide good background knowledge of sector issues. Share experiences of issues and knowledge (risk and control).</p> <p>Reports don’t “direct” but do point out the risks and weaknesses.</p> <p>But I do expect to get more than just assurance!</p> <p>Good training events for committee members.</p>
Process	<p>Generally good.</p> <p>Have “added value”, but not always demonstrated in the reports.</p>	<p>Competent and professional, but could further develop the concept of “added value”.</p> <p>Positive sharing of best practice – what does good look like? Reduce bureaucracy / disproportionate control / risk adverse.</p>	<p>Customer feedback levels have been poor – we need to chase this up.</p> <p>Could look at more tailored feedback forms to ensure continuous improvement</p>	<p>Have good skills and are challenging and sensitive.</p> <p>Would like (sometimes and when appropriate) a more forensic examination of a concern – really go into an issue.</p>	<p>SWAP have issued reports in time, but management responses have been slow. Have asked SWAP to “toughen up” in this area.</p> <p>Some recent reports contained minor errors, but to be expected with new people.</p>	<p>Reports a good – provide a good executive summary and then further details. Able to answer detailed questions at committee.</p> <p>Not watered down, enable difficult issues to be considered.</p>

		Can they give me a greater awareness of challenges that I should be getting ready for?				
General	<p>www – general delivery and product / output generally very good</p> <p>ebi – How the SWAP board of directors operate – not always efficient.</p> <p>Ebi - An audit of (SWAP Board) arrangements would throw up some issues (late agendas etc)</p>	<p>www – professional and committed / genuine in what they do</p> <p>ebi – more responsive. More innovation and proactive – bring ideas to the organisation.</p> <p>ebi – need to be a team, not a collection of individuals</p>	<p>www – successfully deliver the plan each year. Quality high (overall) and client relationships good</p> <p>ebi – Internal data sharing. Good practice / learning from poor performance.</p>	<p>www – achieving a balanced programme. Positive and supporting to the organisation. Personable team – helps managers “open up” to the audit.</p> <p>Ebi – a bit more “critical” – stronger message to get management to understand and address a risk.</p>	<p>www – relationship with AD is very good.</p> <p>Ebi – resource / expectation management –</p> <ul style="list-style-type: none"> • Do what you say you will do • Spend some reserves to enable delivery. Don’t set up to fail 	<p>www – where issues have not been resolved – these are followed up by SWAP, enabling the committee to have confidence that things have moved on.</p> <p>Ebi – few and far between – but reports could show better context – e.g. 1 out of 30 schools</p>

Internal Audit Activity Staff

	G	H	I	J	K
Independence / governance	<p>Well aware of clients to support.</p> <p>No areas “off limits”</p> <p>Discuss reports with management to get “buy in” – helps to get the message across</p>	<p>Impartial opinion on what is being reviewed.</p>	<p>Largely based at one client, but feels well placed to provide objective assurance.</p> <p>There are no “off limits” areas.</p>	<p>People based at locations, but work across clients.</p> <p>Helps to see how others are addressing similar issue and helps in being “independent”</p>	<p>Yes, we are the third line of defence.</p> <p>No areas off limits – but sometimes clients will bring in a consultant to look at an area and so we don’t “duplicate” and take this area from the plan – but can you rely on consultants?</p>
Staff	<p>Really good mix of staff.</p> <p>Dorset a bit short on seniors. There is a plan to address, but not yet happened.</p> <p>Do tend to work in patches.</p> <p>Built up good rapport and relationships with client.</p>	<p>Everyone works well together. Manager happy to have a chat.</p> <p>Some of the staff movements and recent starters have made it difficult – the auditee expects the auditor to know the system !</p> <p>Generally clients find audit helpful – no one has asked “why are you here?”</p> <p>Would have liked a little more guidance on the organisation I am auditing – what are their key objectives?</p>	<p>Communications between head office and staff in the field could be better. New AD structure should help this.</p> <p>There has been a lot of turnover, and we are still not fully resourced.</p> <p>There are no pressures to “cut corners” but we are very clear that we must stay within budget.</p>	<p>Good mix of people.</p> <p>Head of SWAP has good reputation locally and nationally.</p> <p>Good skills, but have lost some people e.g. accountancy qualified staff.</p> <p>The previous “pay reward” scheme did not work out – there were some broken promises, and disillusioned staff left – we lost some good people.</p>	<p>We have good staff.</p> <p>Senior management have best interests of SWAP at heart, but sometimes there are differences in opinion.</p> <p>It has been a challenging 12 months after all the staff changes, but hopeful that this will settle down.</p>
Management	<p>Plan and work linked to client objectives.</p> <p>Each audit assignment is planned to add value.</p> <p>Feedback on audits a little limited. Not sure if this is because no response received, or just not passed on.</p>	<p>Manager has a big portfolio, but tries to make time.</p> <p>Team meetings have been a little sporadic.</p> <p>Pleased that being supported to do IIA qualifications.</p> <p>Was rewarded with an increment after 6 mths.</p>	<p>Always try to add value, but difficult in the repeat, KFS reviews.</p> <p>Always issue a feedback questionnaire, but don’t get a lot back.</p> <p>Management is now better than before restructure; previously rarely saw manager. Plus</p>	<p>Cross cutting reviews have been good, but it would have been good to do more.</p> <p>Feedback questionnaire – could be improved – there is a feeling that if you give a bad audit opinion you will get bad feedback and therefore maybe we don’t chase</p>	<p>We have a good basis for planning.</p> <p>The key is to deliver – manage expectations.</p> <p>Do we have the capacity to deliver and pick up? We are not sat around doing nothing – we need to be honest with the client and ourselves.</p>

	<p>New staff development process – rolled out, but training day was not very positive. Unclear as to what the monthly one to ones are expected to achieve.</p> <p>Induction process for new staff could be clearer. Seniors not always aware what new staff have or have not learned and therefore things get missed.</p>		<p>link with senior auditors is helping.</p> <p>Doing IIA exams, pleased with SWAP support.</p>	<p>this feedback.</p> <p>Had 5 managers in 18 month. Each manager had their own style / approach – as soon as I learned what one manger wanted, it changed!</p> <p>But I plodded along, and got the job done.</p>	
Process	<p>Do not learn enough from previous work – if last year took 10 days, why only have 5 in the plan for this year? Very positive follow up process.</p>	<p>Plan work on a quarterly basis. This often changes, but I am kept up to date.</p>		<p>Good people are doing a good job.</p> <p>We have only lost 1 / 2 clients – so clients like what we do.</p>	<p>Think our quality for price is very good.</p> <p>Working papers good; data sharing good – should we “sell” these benefits more?</p>
General	<p>www - good people, engaged and passionate about the job.</p> <p>Ebi – address staffing issues across Dorset. Resolve inconsistencies between teams and responsibilities.</p>	<p>Ebi – could be a bit firmer with clients, saying we are coming in now to do the work – we need this date by xx – otherwise it makes it difficult to complete the review on time and in time.</p>	<p>www – focus on quality – better than private providers.</p> <p>Ebi – introducing new people – was not until started studying that understood the “why” – was shown the “how” but not the “why”.</p> <p>Ebi – staff restructure – cannot make / keep promises to all our staff.</p>	<p>Ebi – different focus on training – why always IIA?</p> <p>More rounded training – e.g. IT, Fraud, Finance etc could help. 100 staff movements last year – this was too much – have we asked ourselves why? This lost time in training / clients lost time from plans.</p> <p>Comms – people were not aware that colleagues had left !</p>	<p>Ebi – need to get better at demonstrating our “added value”</p> <p>Improve our committee report Engage with audit committee chairs, rather than the S151.</p>

External Auditors and Other Service Providers

	L	M
Independence / governance	Demonstrate good level of independence, probably in better position to demonstrate this than previous in house teams.	No concerns. Strike a good balance. Seek steer, but not led.
Staff	Really good compared to competitors. At one client the change to SWAP has resulted in a significant improvement in the quality of IA work. Provide good skills mix and resilience for all partners. Add value – e.g. training for members	Can place reliance on work – so that is good.
Management	Good presentation of reports at Audit Cttee. Reports are specific, not too detailed. Overall right balance between cost and quality.	Very professional, and work well with the audit committee. One instance of a very big audit committee, working in a very detailed way. Seems to have frustrated SWAP rep, maybe some potential to consider and address the issue, rather than getting frustrated.
Process	Good process to follow up on recommendations made. Engage with EA well, recognise that EA and IA should work together	Assurance mapping – have really taken a lead on this with good results. Deliverability? Not alone in being behind in the plan, but a lot of carry forward work which will have an impact on future years.
General	No issues raised.	www – new concepts – e.g. assurance mapping. Www – fully risk based approach. Ebi – we seek to rely on SWAP work, this works well for kfs type work, but maybe not so for ICT work. Can this be improved in some way ?

Independent Validator Statement

The validator was engaged to conduct an independent validation of the South West Audit Partnership's internal audit activity's self-assessment. The primary objective of the validation was to verify the assertions made in the self-assessment report concerning adequate fulfilment of the organisation's basic expectations of the internal audit activity and its conformity to The Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards). Other matters that might have been covered in a full external assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the Chief Executive of SWAP.

In acting as validator, I am fully independent of the organisation and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during February 2016, consisted primarily of a review and test of the procedures and results of the self-assessment. In addition, interviews were conducted with the Chief Executive of SWAP, chief financial officers, audit committee chairs and other senior members of management of SWAP partners, and appropriate external auditor representatives.

I concur fully with the internal audit activity's conclusions in the self-assessment. Implementation of the limited recommendations contained my report will, I trust, help further improve the effectiveness and enhance the value of the internal audit activity and support conformity to the Standards.

Robert Hutchins ACMA

Independent Validator

4 March 2016.

Agenda Item 10

Assessment of Going Concern Status

Assistant Director: Donna Parham, Finance and Corporate Services
Lead Officer: Donna Parham
Contact Details: Donna.parham@southsomerset.gov.uk or (01935) 462225

Purpose of the report

This report informs the Committee of the S151 Officer's (Assistant Director – Finance and Corporate Services) assessment of the Council as a "going concern" for the purposes of producing the Statement of Accounts for 2015/16.

Recommendations

The Audit Committee is asked to:

- (1) The Committee is recommended to note the outcome of the assessment made of the Council's status as a "going concern" for the purposes of the draft Statement of Accounts for 2015/16.

Introduction

The consideration of the assessment is included within the remit of the Audit Committee under its terms of reference as follows:

"To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised."

Assessment

The concept of a 'going concern' assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

Where the 'going concern' concept is not the case, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.

Given the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of one or more councils as a consequence, External Auditors are placing a greater emphasis on local authorities undertaking an

assessment of the 'going concern' basis on which they prepare their financial statements. In response this report sets out the position at South Somerset District Council.

As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting for 2015/16 (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the Council's Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business.

The main factors which underpin this assessment are:

- The Council's current financial position;
- The Council's projected financial position;
- The Council's Balance Sheet;
- The Council's cash flow;
- The Council's governance arrangements;
- The regulatory and control environment applicable to the Council as a local authority.

Each of the above is considered in more detail below.

The Council's Current Financial Position (Revenue)

An underspend for 2015/16 of £0.8 million will be reported to District Executive in July 2016. This is due mainly to:-

- £283k from Revenues and Benefits due to increased recovery on housing benefit overpayments and additional legal fees recovered
- £119k from increased income at Yeovil Innovation Centre and savings on salary costs;
- £83k from reduced costs on bed and breakfast and homeless prevention and increased income from Careline.

As at the 31st March 2016 the Council held revenue reserves of £13.06 million for specific purposes. This is expected to reduce by between £3 and £4 million in 2016/17.

SSDC has £8.27 million of revenue balances with £3.7 million remaining uncommitted at the year end. It needs to be noted that £3.4 million will be utilised to fund a Collection Fund Deficit in terms of NDR. A review of the risks to balances is carried out on a quarterly basis. At the year end the estimated requirement was to retain between £3.3 and £3.7 million to meet SSDC's key financial risks.

For 2016/17 the Council set a balanced budget which included £1.2 million of savings. As part of the medium-term financial strategy and plan, the Council has mainstreamed the use of New Homes Bonus but has capped the support for the General Fund at £3m per annum. The authority will seek to retain a two year forward plan to support the General Fund with New Homes Bonus before releasing any surplus for other uses. The 2016/17 budget does not utilise balances and reserves for on-going expenditure.

The Council's Projected Financial Position (Revenue)

Plans for the 2017/18 budget and beyond are now well underway with an overall target of £4.1 million. The key risk is that some of the key projects within Transformation and Income Generation take a longer lead in time and cannot be realised as early as 2017/18 but the authority has sufficient reserves and balances currently to meet those risks.

The Council's Current and Projected Financial Position (Capital)

Details of the capital outturn for 2015/16 will be reported to the Executive in July. The report highlights that gross spend was £3.3 million compared to a revised budget of £3.6 million. The authority held £34.9 million in Capital receipts with approximately £18 million of that sum uncommitted.

The Council's Balance Sheet as at 31st March 2016

The financial overview included in the draft Statement of Accounts for 2015/16 includes reference to the Council's balance sheet as at 31st March 2016 and concludes that it is robust. Factors giving rise to this assessment include:

- Review of debts owed to the Council;
- An assessment of the Council's net worth;
- The adequacy of risk-assessed provisions for doubtful debts;
- The range of reserves set aside to help manage expenditure (reported under current revenue position);
- An adequate risk-assessed working balance to meet unforeseen expenditure (reported under current revenue position).

The authority's net assets amounted to £38.2 million and are significantly reduced by the inclusion of the pension scheme liability of £68.6 million. Contributions to the pension scheme have been increasing to meet this liability over the longer term. However in reality the current net worth is £57.4 million (Usable Capital Receipts £34.9 million, Capital Grants Unapplied £0.5 million, Authority's share of joint operation £0.6, Earmarked Reserves £13.1 million and General Fund Balances £8.3 million).

The Council's Cash Flow

The Council maintains short and long term cash flow projections. The Council has no long term borrowing commitments. As at the 31st March 2016 the Council held £48.4 million in investments. Of this sum around 60% was held in highly liquid investments. Only £7 million was invested for longer than 364 days and no investments were made for longer than five years.

The Council's Governance Arrangements

The Annual Governance Statement has been reviewed taking into account external and internal audit reviews, Statements of Operational Internal Controls from each Manager and reviewed by the Council's S151 Officer. This includes, in Section 4 of the annual statement, a detailed review of the effectiveness of the Council's governance arrangements. Whilst it is not possible to provide absolute assurance the review process as outlined in the Annual Governance Statement does conclude that the existing arrangements remain fit for purposes and help provide reasonable assurance of their effectiveness.

The External Regulatory and Control Environment

As a principal local authority the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and central government control there are other factors such as the role undertaken by External Audit as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies

Conclusions

It is considered that having regard to the Council's arrangements and such factors as highlighted in this report that the Council remains a "going concern". This assessment will be undertaken annually in the course of preparing the Council's financial statements for each year.

Financial Implications

There are no direct financial implications arising from this report.

Background Papers

Outturn Report to District Executive.

Agenda Item 11

2015/16 Annual Governance Statement

Assistant Director: Donna Parham, Finance and Corporate Services
Lead Officer: As above
Contact Details: donna.parhamt@southsomerset.gov.uk or (01935) 462225

Purpose of the Report

This report has been prepared for the Audit Committee to approve the Annual Governance Statement (AGS) for 2015/16.

Recommendation

To approve the 2015/16 Annual Governance Statement.

Background

As a local authority SSDC is required to demonstrate compliance with the underlying principles of good governance and that a framework exists to demonstrate this. One of the Councils requirements in demonstrating this is to produce an Annual Governance Statement (AGS).

The Chartered Institute of Public Finance and Accountancy (CIPFA) provides guidance on the processes for the establishment, operation and review of the system of internal control. Their guidance also provides help on the format and content of the AGS.

Annual Governance Statement

Regulation 4, of Accounts and Audit (England) Regulations 2011 includes a requirement to publish an Annual Governance Statement (AGS). The regulations require authorities to carry out a review of the effectiveness of their system of internal control and may include an Annual Governance Statement in the annual accounts. This is to provide assurance that SSDC has a sound internal control framework in place to manage the risks that might prevent achievement of its statutory obligations and organisational objectives.

The statement also reflects the compliance with the "Statement on the Role of the Chief Finance Officer in Local Government (2010) and the CIPFA statement of the Role of the Head of Internal Audit (2010)." This is evidenced within the Annual Governance Statement where the authority meets with best practice.

The Annual Governance Statement will continue to be signed by the Leader of the Council, the Chief Executive.

The Statement also reflects Public Sector Internal Audit Standards (PSIAS). The Standards also require a Quality Assurance and Improvement Programme which has been included within the Review of Internal Audit and will be monitored by the Audit Committee.

In producing the Annual Governance Statement reports from SSDC's external auditors, South West Audit Partnership, a review of the effectiveness of internal audit, the annual

review of the Assistant Director of SWAP, and a review of all Statements of Operational Service Internal Controls have been undertaken. The review has been completed by the Corporate Governance Group (the Chief Executive, Monitoring Officer, and S151 Officer). There are no significant issues to be addressed. Significant issues are issues that would be highlighted through the Corporate Governance Group, the S151 Officer, Internal Audit as a risk score of 5 or highlighted through the work of External Audit. The action included within the Annual Governance Statement will further strengthen the control framework.

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: *Annual Governance Statement 2015/16*

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

SSDC is responsible for ensuring that:

- its business is conducted in accordance with the law and proper standards;
- public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

SSDC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, SSDC is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

SSDC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework “*Delivering Good Governance in Local Government*”. A copy of the authority’s code can be obtained on request. This statement explains how SSDC has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

The governance framework comprises the systems and process, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process that is designed to:

- identify and prioritise the risks to the achievement of SSDC’s policies, aims and objectives;
- evaluate the likelihood and potential impact of those risks being realised;
- managing the risks efficiently, effectively and economically.

The governance framework has been in place at SSDC for the year ended 31 March 2016 and up to the date of approval of the statement of accounts.

The governance environment

The key elements of SSDC's governance arrangements are outlined in the Local Code of Corporate Governance. The main areas and the key areas of evidence of delivery are as follows:

Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

- The Council Plan sets out the priority areas for South Somerset District Council.
- Annual accounts are published on a timely basis to communicate the council's activities and achievements, its financial position and performance.
- Guidance has been produced to facilitate partnership working and a Partnership Register published and updated annually.
- All reports to be considered for approval must show a clear outline of purpose so the community can understand each committee report. All reports must have a clear outline of financial implications before consideration by members.

Members and officers working together to achieve a common purpose with clearly defined functions and roles

- The three statutory officers (Head of Paid Service, Monitoring Officer and s151 Officer) regularly meet as a Corporate Governance Group. The Monitoring Officer and s151 Officer report directly to the Head of Paid Service and are members of the senior Management Board.
- Regular weekly meetings between the Leader and Chief Executive in order to maintain a shared understanding of roles and objectives.
- Protocols developed and enforced to ensure effective communication between members and officers in their respective roles.
- Regular meetings are held between the Executive members and senior management.
- There is a clear scheme of delegation for officers and members within the Constitution.
- The s151 Officer leads the promotion and delivery of good financial management through Management Board, Corporate Performance Team, attendance at committees, is the lead office for the Audit Committee, and specialist workshops and training. The s151 Officer has line management responsibility for finance staff.

Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- The financial management of the Council is conducted in accordance with the rules set out in Part 4 of the Constitution.

- The Council maintains an Internal Audit Service through the South West Audit Partnership (SWAP) that operates to standards specified by the Chartered Institute of Internal Auditors (CIIA) and the CIPFA statement of the Role of the Head of Internal Audit (2010) but with some delegation within SWAP.
- There is a countywide code of conduct and this will be regularly reviewed by the Standards Committee.
- There is a voluntary Standards Committee in place with an agreed constitution containing its terms of reference.
- Regular communication is made through Staff Awareness Sessions, Insite, and Team Brief.
- A Management Charter has been introduced and signed by all Managers and compliance will be reviewed through Staff Appraisal and Development Reviews.
- A Staff Charter has been introduced.
- The Council received an IIP (Investors In People) gold award in March 2015.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

- The Council has adopted a Constitution that sets out how it operates, how decisions are taken and the procedures to follow.
- The District Executive facilitates decision-making and its Sub Committees, four Area Committees and meetings are open to the public except where personal or confidential matters are disclosed.
- Portfolio Holders can make decisions under delegated authority and these are fully publicised. Senior officers can also take decisions under delegated authority.
- Regulation Committee determines planning applications that are referred from Area Committees.
- The Council publishes a Forward Plan that provides details of key decisions to be made by the Council and its committees.
- Area Committees also hold regular workshops where local issues are identified and discussed;
- The Council has an approved a Risk Management Policy that identifies how risks are managed.
- Responsible officers are required to maintain their part of the Risk Register.
- All Assistant Directors have the following included within their job descriptions, "Lead the service(s) in a full and comprehensive understanding of risk, risk assessment and risk management as it relates to the operational areas relevant to the service(s)."

- Any Internal Audit actions showing the highest risk score of 5 will be outlined annually and monitored within the Annual Governance Statement.

Developing the capacity and capability of members and officers to be effective

- The Council looks to develop skills on a continuing basis to improve performance of officers through the Staff Development and Appraisal Review process including the use of training and development plans.
- Succession planning encourages participation and development for members and officers.
- Through a comprehensive member training and development programme.
- An induction programme is in place for all new staff and newly elected members.
- Clear job descriptions and personal specifications are in place for all roles.
- The s151 Officer and four of the finance team are qualified accountants with several years' experience. The finance function has sufficient resources within the Establishment to perform its role effectively.

Engaging the local people and other stakeholders to ensure robust public accountability

- Area Committees ensure further local accountability and local access.
- Budget consultation has been carried out for specific savings plans and equalities assessments carried out on each proposal.
- A summarised Statement of Accounts is published each year explaining the key financial areas to the public.

Review of effectiveness

SSDC has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Corporate Governance Group, Management Board and the Corporate Performance Team, who have responsibility for the development and maintenance of the governance environment, the annual report from the Head of Internal Audit (SWAP), and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied to maintaining and reviewing the effectiveness of the governance framework includes:

- The monitoring officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are adequate. The Council reviews the constitution annually through its Standards Committee.

- The Council has a Scrutiny Committee that can call in any decision made by an Executive Committee before implementation. This enables them to consider whether or not the decision is appropriate. Pre-decision scrutiny has evolved to aid in the decision making process.
- The Audit Committee reviews the Annual Statement of Accounts, the Review of the Effectiveness of Internal Audit, and the Annual Governance Statement. It monitors the performance of internal audit quarterly and agrees the Internal and External Audit Plans. It reviews specific parts of the Constitution and makes recommendations on any amendments to full Council.
- The Audit Committee has a call in role for any service that receives a “partial” or “no assurance” audit opinion and monitors that action plans are completed through regular reports from the Service Manager and Assistant Director.
- Internal Audit through SWAP is responsible for monitoring the quality and effectiveness of systems of internal control. The Audit Service has a Charter approved by the Audit Committee and there are no restrictions on the scope of their work. A risk model is used to formulate the plan and it is approved by the Audit Committee. The reporting process for Internal Audit requires a report of each audit to be submitted to the Service Manager with copies to the relevant Assistant Director, Assistant Director – Finance and Corporate Services, Assistant Director - Legal and Corporate Services, and Chief Executive. All audit reports include an ‘opinion’ that provides management with an independent judgement on the adequacy and effectiveness of internal controls. Reports include recommendations for improvement that are detailed in an action plan that is agreed with the service manager.
- Internal Audit (SWAP) is subject to the Public Sector Internal Audit Standards (PSIAS). This includes an external assessment at least every five years. It requires an action plan to implement improvements and assess the efficiency and effectiveness of internal audit. This will be regularly reviewed by the Audit Committee.
- For performance management, a ‘traffic light’ monitoring and reporting system is in place reporting quarterly to the Executive Committee.
- The Council’s Financial Procedure Rules are kept under review and revised periodically – the last review was approved in March 2015.
- Each Manager and Assistant Director is required to review their adherence to the governance framework and demonstrate compliance through reviewing and signing a Statement of Internal Operational Control. Each return is assessed by the S151 Officer for compliance and any apparent organisational improvements are included in the Governance Action Plan.
- Audit Committee has been advised on the implications of the result of the review of the effectiveness of the governance framework and a plan to address weaknesses and ensure continuous improvement of the system is in place.

We have been advised on the implications of the results of the **review of the effectiveness of the governance framework** by the Audit Committee and that the arrangements **continue to be regarded as fit for purpose in accordance with the governance framework**. The areas already addressed and those to be specifically addressed with new actions planned are outlined below:

Actions for 2015/16

- A refresh of the **Risk Management Strategy**
- A Management Team review of **Service Planning** requirements

Significant governance issues

There are no significant governance issues to report for 2015/16.

However, we propose over the coming year to continue to take steps to strengthen and enhance our governance arrangements.

Signed on behalf of SSDC:

Rina Singh
Chief Executive

Cllr Ric Pallister
Leader

Agenda Item 12

2015/16 Treasury Management Activity Report

Assistant Director: Donna Parham – Finance and Corporate Services
Service Manager: Catherine Hood – Finance Manager
Lead Officer: Karen Gubbins, Principal Accountant
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Purpose of Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the 2015/16 financial year as prescribed by the revised CIPFA Code of Practice and in accordance with the Council's Treasury Strategy and Annual Investment Policy and Treasury Management Practices.

Recommendations

2. The Audit Committee are asked to:
 - Note the Treasury Management Activity for the 2015/16 financial year;
 - Note the position of the individual prudential indicators for the 2015/16 financial year;
 - Note the outlook for the investment performance in 2016/17
 - Recommend the 2015/16 Treasury Management Activity Report to full Council

Background

3. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.
4. Treasury management in this context is defined as:

"The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".
5. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
6. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

Summary of Investment Strategy for 2015/16

7. The Council's strategy for investments was based upon minimising risk and safeguarding the capital sum. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for

2015/16 which defined “high credit quality” organisations as those having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

8. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aimed to further diversify into more secure and higher yielding asset classes during 2015/16.
9. In addition, the Authority has £5m invested with organisations and pooled funds without credit ratings, these include Payden and CCLA (Property fund) following external assessment and advice from the Authority’s treasury management adviser, Arlingclose.
10. The Treasury Management Strategy Statement and Annual Investment Policy were both approved by Council on 26th February 2015.

Credit developments and credit risk management

11. The Authority assessed and monitored counterparty credit quality with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country’s net debt as a percentage of GDP and share price.
12. The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.
13. Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.
14. Moody’s concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.
15. S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. As a result of this the Authority made the decision to suspend Deutsche Bank as a counterparty for new unsecured investments. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.
16. At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in

September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

17. In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.
18. The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.
19. The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Authority therefore increasingly favoured secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits.

Interest Rates 2014/15

20. The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low levels which continued to have a significant impact on investment income. The average 3-month LIBID rate during 2015/16 was 0.54%, the 6-month LIBID rate averaged 0.76% and the 1-year LIBID rate averaged 0.99%. The low rates of return on the Authority's short-dated money market investments reflect prevailing market conditions and the Authority's objective of optimising returns commensurate with the principles of security and liquidity.
21. Our advisors are forecasting that the outlook is for official interest rates to remain at 0.5% until June 2018, as shown below:

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Average
Official Bank Rate														
Upside risk	-	-	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.27
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.60
Downside risk			-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.35

Investment Portfolio

22. The table below shows the Council's portfolio of investments at the start and end of the 2015/16 financial year;

	Value of Investments at 01.04.15 £	Value of Investments at 31.03.16 £	Fixed/ Variable Rate
Investments advised by Arlingclose			
Money Market Fund (Variable Net Asset Value)	1,001,247	997,565	Variable
Property Fund	3,363,303	4,494,168	Variable
Total	4,364,550	5,491,733	
Internal Investments			
Certificates of Deposit	4,512,371	5,513,212	Fixed
Corporate Bonds	11,271,639	6,706,395	Fixed
Floating Rate Notes (FRNs)	9,972,584	10,025,398	Variable
Short Term Deposits (Banks)	7,500,000	9,000,000	Variable
Short Term Deposits (Other LAs)	8,000,000	11,000,000	Variable
Money Market Funds (Constant Net Asset Value) & Business Reserve Accounts	3,720,000	1,490,000	Variable
Total	44,976,594	43,735,005	
TOTAL INVESTMENTS	49,341,144	49,226,738	

Returns for 2015/16

23. The returns to 31st March 2016 are shown in the table below:

	Actual Income £'000	% Rate of Return
Investments advised by Arlingclose		
Payden Money Market Fund (VNAV)	9	
Property Fund (CCLA)	185	
Total	194	4.53%
Internal Investments		
Certificates of Deposit (CD's)	41	
Corporate Bonds	135	
Floating Rate Notes (FRNs)	67	
Treasury Bills	2	
Fixed Term Deposits	128	
Money Market Funds (CNAV) & Business Reserve Accounts	22	
Total	395	0.73%
Other Interest		
Miscellaneous Loans	5	
Total	5	
TOTAL INCOME TO 31st MARCH 2016	594	1.00%
BUDGETED INCOME	461	
SURPLUS	133	

24. The table above shows investment income for the year compared to the budget. The figures show a surplus over budget of £133,000. The original Treasury Management budget of £461,320 was derived by forecasting an average rate of return of 0.9%. The actual interest rate received for the year was 1.00%, this was enhanced due to the performance of the Property Fund which averaged 5.65%.
25. We currently hold £4m nominal value in the CCLA fund, this converts to 1,558,527 units and £1m in Payden which converts to 98,990.299 shares.
26. The outturn position is affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of capital expenditure and the collection of council tax and business rates.

Investments

27. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15. New investments can be made with the following institutions:
- Other Local Authorities;
 - AAA-rated Money Market Funds;
 - Certificates of Deposit (CDs) and Term Deposits with UK Banks and Building Societies systemically important to the UK banking system and deposits with select non-UK Banks (Australian, Canadian and American);
 - T-Bills and DMADF (Debt Management Office);
 - Bonds issued by Multilateral Development Banks, such as the European Investment Bank;
 - Commercial Paper
 - Other Money Market Funds and Collective Investment Schemes meeting the criteria in SI 2004 No 534, SI 2007 No 573 and subsequent amendments.
28. The graph shown in appendix A shows the performance of the in-house Treasury team in respect of all investments for the quarter ending 31st March 2016 in comparison to all other clients of Arlingclose.
29. The graph shows that SSDC is in a very good position in terms of the risk taken against the return on investments.

Borrowing

30. An actual overall borrowing requirement (CFR) of £9.5 million was identified at the beginning of 2015/16. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 31st March 2016 the Council had no external borrowing.

Breakdown of investments as at 31ST March 2016

Date Lent	Counterparty	Nominal Amount	Rate %	Maturity Date
5 Nov 15	Lancashire County Council	1,000,000	0.60	26 Sep 16
11 Mar 16	IPA SCB TD Incoming (Santander)	1,000,000	0.70	12 Sep 16
9 Mar 16	United Overseas Bank Ltd	2,000,000	0.82	8 Mar 17
21 Mar 16	Bank of Scotland	1,000,000	1.05	20 Mar 17
17 Feb 16	Rabobank International	1,000,000	0.75	17 Feb 17
28 Aug 15	Bank of Scotland	1,000,000	1.00	30 Aug 16
21 Mar 16	Nationwide Building Society	1,000,000	0.60	22 Aug 16
18 Mar 16	Nationwide Building Society	1,000,000	0.71	19 Sep 16
29 Oct 15	Eastleigh Borough Council	2,000,000	0.50	29 Jun 16
15 Oct 15	Lancashire County Council	1,000,000	0.60	6 Oct 16
2 Nov 15	Conwy County Borough Council	2,000,000	0.50	2 Jun 16
15 Dec 15	North Tyneside Council	2,000,000	0.65	13 Dec 16
31 Mar 16	Greater London Authority	2,000,000	0.60	30 Mar 17
1 Feb 16	Barclays Bank Plc	1,000,000	0.54	9 May 16
7 Mar 16	Telford & Wrekin Council	1,000,000	0.50	7 Jun 16
	Corporate Bonds/Eurobonds			
17 Jan 14	Places for People Capital Markets	568,000	2.67	27 Dec 16
17 Jan 14	Places for People Capital Markets	432,000	2.67	27 Dec 16
4 Aug 14	Leeds Building Society (Covered)	500,000	2.13	17 Dec 18
22 Oct 14	Yorkshire Building Society (Covered)	1,500,000	1.56	12 Apr 18
5 Jun 15	European Investment Bank	2,000,000	0.66	7 Sep 16
4 Feb 16	Daimler AG	331,000	1.15	2 Dec 16
31 Mar 16	European Investment Bank	1,000,000	0.65	7 Sep 16
	Certificates of Deposit (CDs)			
30 Oct 15	Standard Chartered	1,000,000	0.70	29 Apr 16
22 Jan 16	Rabo Bank	1,000,000	0.67	22 Jul 16
29 Jan 16	Toronto Dominion	1,000,000	0.90	27 Jan 17
5 Feb 16	Standard Chartered	1,000,000	0.73	5 Aug 16
19 Feb 16	Nordea AB	500,000	0.69	21 Nov 16
4 Mar 16	Credit Suisse AG London	1,000,000	0.57	6 Jun 16
	Floating Rate Notes (FRNs)			
25 Nov 13	HSBC Bank PLC	1,000,000	0.84	16 May 16
22 Oct 14	Abbey National Treasury Services *Covered*	1,000,000	0.72	5 Apr 17
21 Nov 14	Barclays Bank Plc *Covered*	1,000,000	0.68	15 Sep 17
27 Mar 15	Lloyds Bank Plc *Covered*	2,000,000	0.65	16 Jan 17
29 Apr 15	Toronto Dominion *Covered*	1,000,000	0.66	20 Nov 17
26 Jun 15	Nationwide Building Society *Covered*	1,000,000	0.68	17 Jul 17
2 Jul 15	National Australia bank Ltd	1,500,000	0.67	12 Aug 16
9 Nov 15	HSBC Bank PLC	500,000	0.66	16 May 16
7 Mar 16	Commonwealth Bank of Australia *Covered*	1,000,000	0.89	24 Jan 18
	Pooled Funds & Money Market Funds			
	Payden Fund VNAV	1,000,000	0.87	
	CCLA Property Fund	4,000,000	5.65	
	Blackrock	490,000	0.45	
	Federated Money Market Fund	500,000	0.44	
	Invesco Aim	500,000	0.38	
	TOTAL	48,321,000		

Note: Money Market Funds are instant access accounts so the rate displayed is a daily rate

Prudential Indicators – 2015/16

Background:

31. In February 2015, Full Council approved the indicators for 2015/16, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allows local authorities to determine their own borrowing limits provided they are affordable and that every local authority complies with the code.

Prudential Indicator 1 - Capital Expenditure:

32. The actual capital expenditure incurred for 2015/16 compared to the revised estimate was:

	2014/15 Outturn £'000	2015/16 Revised Estimate £'000	2015/16 Outturn £'000	2015/16 Variance £'000	Reason for Variance
Approved capital schemes	2,641	5,637	2,084	(3,553)	Re-profiling of the expenditure to future years
Total Expenditure	2,641	5,637	2,084	(3,553)	

Prudential Indicator 2 - Ratio of Financing Costs to Net Revenue Stream:

33. A comparison needs to be made between financing capital costs and the revenue income stream to support these costs. This shows how much of the revenue budget is committed to the servicing of finance.

Portfolio	2014/15 Outturn £'000	2015/16 Revised Estimate £'000	2015/16 Outturn £'000	2015/16 Variance £'000	Reason for Variance
Financing Costs	(413)	(461)	(424)	37	Increased MRP due to the additional leases taken out in March 2016
Net Revenue Stream	17,881	17,390	17,782	392	Carry forwards approved of £303k, £44k contribution from the Somerset Rivers Authority, £5k contribution from Somerset Growth Board, £34k Westlands Funding
%*	(2.3)	(2.7)	(2.4)		

*figures in brackets denote income through receipts and reserves

34. The financing costs include interest payable and notional amounts set aside to repay debt less interest on investment income. The figure in brackets is due to investment income outweighing financing costs significantly for SSDC but is nevertheless relevant since it shows the extent to which the Council is dependent on investment income.

Prudential Indicator 3 - Capital Financing Requirement:

35. The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The year-end capital financing requirement for the council is shown below:

	2014/15 Outturn £'000	2015/16 Revised Estimate £'000	2015/16 Outturn £'000	2015/16 Variance £'000	Reason for Variance
Opening CFR	9,625	9,484	9,447	(37)	The original estimate was based on the information held at the time
Capital Expenditure	3,772	6,795	3,227	(3,568)	Re-profiling of expenditure to future years has reduced the capital expenditure in year
Capital Receipts*	(2,641)	(5,637)	(2,084)	3,553	Reduced spend has resulted in less capital receipts needed to fund these projects in this year
Grants/Contributions*	(1,131)	(1,158)	(1,143)	15	
Minimum Revenue Position (MRP)	(178)	(123)	(170)	(47)	Additional leases were taken out after the budget was set which has incurred additional MRP
Additional Leases taken on during the year	0	0	66	66	New finance leases taken out in year for 3 vehicles
Closing CFR	9,447	9,361	9,343	(18)	

*Figures in brackets denote income through receipts or reserves.

Prudential Indicator 4 – Gross Debt and the Capital Financing Requirement:

36. The Council is also required to ensure that any medium term borrowing is only used to finance capital and therefore it has to demonstrate that the net external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period.

	2014/15 Outturn £'000	2015/16 Revised Estimate £'000	2015/16 Outturn £'000	2015/16 Variance £'000	Reason for Variance
Borrowing	0	0	0	0	SSDC currently has no borrowing
Finance Leases	334	186	230	44	Additional leases taken out in 2015/16
Total Debt	334	186	230	44	

37. Total debt is expected to remain below the CFR for the foreseeable future.

Prudential Indicator 5 - Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

38. The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. For this purpose, term deposits of less than 365 days are deemed to be variable rate deposits. Fixed rate deposits are investments in Eurobonds, Corporate Bonds and term deposits exceeding 365 days.

	2014/15 Actual %	2015/16 % Limit	2015/16 Actual %	2015/16 Variance %	Reason for Variance
Fixed	6.20	80	4.14	(75.86)	Within limit
Variable	93.80	100	95.86	(4.14)	Within limit

39. The Council must also set limits to reflect any borrowing we may undertake.

	2014/15 Actual %	2015/16 % Limit	2015/16 Actual %	2015/16 Variance %	Reason for Variance
Fixed	0	100	0	100	SSDC currently has no borrowing
Variable	0	100	0	100	SSDC currently has no borrowing

40. The indicator has been set at 100% to maximise opportunities for future debt as they arise.

Prudential Indicator 6 - Upper Limit for total principal sums invested over 364 days:

41. SSDC must also set upper limits for any investments of longer than 364 days. The purpose of this indicator is to ensure that SSDC, at any time, has sufficient liquidity to meet all of its financial commitments.

Upper Limit for total principal sums invested over 364 days	2014/15 Actual £'000	2015/16 Maximum Limit £'000	2015/16 Actual (Principal amount) £'000	Variance £'000	Reason for Variance
Between 1-2 years	4,000	25,000	5,000	(20,000)	Within limit
Between 2-3 years	2,000	20,000	2,000	(18,000)	Within limit
Between 3-4 years	2,000	10,000	0	(10,000)	Within limit
Between 4-5 years	0	10,000	0	(10,000)	Within limit
Over 5 years	0	5,000	0	(5,000)	Within limit

42. The table above shows that the Council adopts a policy of safeguarding its investments by minimising investments that are redeemable more than five years ahead.

Prudential Indicator 7 – Credit Risk:

43. The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country's net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

Prudential Indicator 8 - Actual External Debt:

44. This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities (this represents our finance leases). This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2016	£'000
Borrowing	0
Other Long-term Liabilities (Finance Leases)	230
Total	230

Prudential Indicator 9 - Authorised Limit for External Debt:

45. This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A ceiling of £12 million was set for each year.

	2014/15 Actual £'000	2015/16 Original Estimate £'000	2015/16 Actual £'000	2015/16 Variance £'000	Reason for Variance
Borrowing	0	11,000	0	(11,000)	SSDC currently has no borrowing
Other Long-term Liabilities	334	1,000	230	(770)	Within limit
Total	334	12,000	230	(11,770)	

Prudential Indicator 10 – Operational Boundary for External Debt:

46. The operational boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt. A ceiling of £10 million for each of the next three years was set.

	2014/15 Actual £'000	2015/16 Original Estimate £'000	2015/16 Actual £'000	2015/16 Variance £'000	Reason for Variance
Borrowing	0	9,200	0	(9,200)	SSDC currently has no borrowing
Other Long-term Liabilities	334	800	230	(570)	Within limit
Total	334	10,000	230	(9,770)	

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

47. This indicator is relevant when we borrow, then we can take a portfolio approach to borrowing in order to reduce interest rate risk. This indicator is shown as the Council has set limits in anticipation of future borrowing.

Maturity structure of fixed rate borrowing	2015/16 Upper Limit %	2015/16 Lower Limit %	2015/16 Actual %	2015/16 Variance %
Under 12 months	100	0	0	Not applicable
12 months and within 24 months	100	0	0	Not applicable
24 months and within 5 years	100	0	0	Not applicable
5 years and within 10 years	100	0	0	Not applicable
10 years and within 20 years	100	0	0	Not applicable
20 years and within 30 years	100	0	0	Not applicable
30 years and within 40 years	100	0	0	Not applicable

40 years and within 50 years	100	0	0	Not applicable
50 years and above	100	0	0	Not applicable

Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:

48. SSDC must show the effect of its annual capital decisions for new capital schemes on the council taxpayer. Capital spend at SSDC is financed from additional receipts so the figure below actually shows the possible decreases in council tax if all capital receipts were invested rather than used for capital expenditure.

Incremental Impact of Capital Investment Decisions	2014/15 Actual £	2015/16 Actual £
Decrease in Band D Council Tax	0.04	0.07

Prudential Indicator 13 - Adoption of the CIPFA Treasury Management Code:

49. This indicator demonstrates that the Council has adopted the principles of best practice.

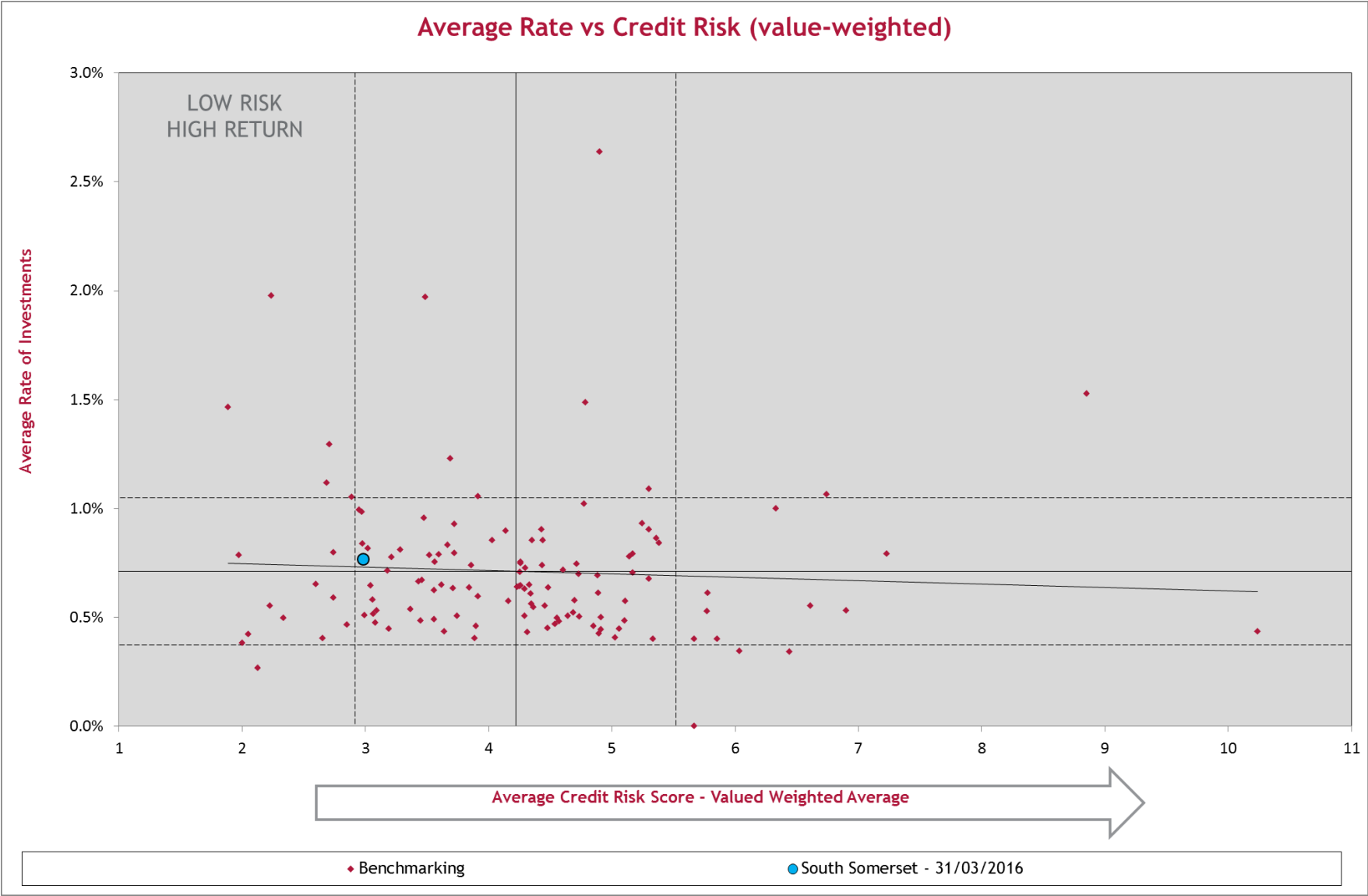
Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18 th April 2002.

Conclusion

50. The council operated within all of the Prudential Indicators during 2015/16

Background Papers: Prudential Indicators Working Paper, Treasury Management Strategy Statement 2015/16, Capital Monitoring Qtr 4 2015/16.

Appendix A



Agenda Item 13

Audit Committee Forward Plan

Assistant Director: Donna Parham, Finance and Corporate Services
Lead Officer: Becky Sanders, Democratic Services Officer
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Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendation

Members are asked to comment upon and note the proposed Audit Committee Forward Plan as attached.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked in italics are not yet confirmed.

Background Papers: None

Audit Committee – Forward Plan

Committee Date	Item	Responsible Officer
26 Jul '16	<ul style="list-style-type: none"> • Approve Annual Statement of Accounts • Approve Summary of Accounts • External Audit - Annual Governance Report • External Audit – VFM Conclusion 	Karen Gubbins Karen Gubbins Donna Parham Donna Parham
25 Aug '16	<ul style="list-style-type: none"> • Treasury Management – First Quarter monitoring report • Internal Audit – First Quarter Update • Draft Policy for Management of Information Requests • Debt Write Offs Report • E:Procurement • Risk Management Update/Procurement Strategy Update 	Karen Gubbins Moya Moore Zac Tredger / Lynda Creek Donna Parham Gary Russ Gary Russ
29 Sep '16	<ul style="list-style-type: none"> • Treasury Management Practices • Register of staff interests – annual review 	Karen Gubbins Ian Clarke
27 Oct '16	<ul style="list-style-type: none"> • Mid-year review of Treasury Strategy – Needs to go on to Full Council 	Karen Gubbins
24 Nov '16	<ul style="list-style-type: none"> • Treasury Management – Second Quarter monitoring report • Internal Audit – second Quarter update • Annual Audit Letter • Property Services Update on Audit Action Report 	Karen Gubbins Moya Moore Donna Parham Garry Green

Agenda Item 14

Training Session for Audit Committee Members

Please Note:

Following the close of the meeting there will be a training session regarding the Statement of Accounts. All members of Audit Committee are requested to attend the session as it forms an essential part of the Audit Committee training programme.
