South Somerset District Council

Internal Audit Annual Opinion Report 2020/21

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Internal Audit Annual Opinion – 2020/21: 'At a Glance'

Annual Opinion

There is generally a sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.

The Headlines

No Significant Risk identified in year after testing the controls in place.

28 reviews delivered as part of the 2020/21 Internal Audit Plan.
Includes assurance, advisory and follow up reviews (21 final, 4 Draft, 3 in progress).

Internal Audit staff redeployed directly into Council areas to assist with the COVID response.
COVID 19 Business Grant processing and post payment checks.

Range of innovations and enhancements made to our internal audit process throughout the year.
One-page audit report, introduction of Agile auditing and planning.

*Final Reports only

Internal Audit Assurance Opinions 2020/21 *

Substantial	1
Reasonable	4
Limited	3
No Assurance	0
Advisory / Follow Up	13

Internal Audit Agreed Actions 2020/21*

Priority 1	0
Priority 2	10
Priority 3	15
Total	25

Executive Summary

Internal Audit provides an independent and objective opinion on the effectiveness of the Authority's risk management, control and governance processes.

Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
  - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
  - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
  - the effectiveness of risk management processes; and
  - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- 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 and the Annual Internal Audit Opinion given.

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

Page 1

Three Lines Model

To ensure the effectiveness of an organisation's risk management framework, the Audit and Governance Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- **the first line – functions that own and manage risk.**
- **the second line – functions that oversee or specialise in risk management, compliance.**
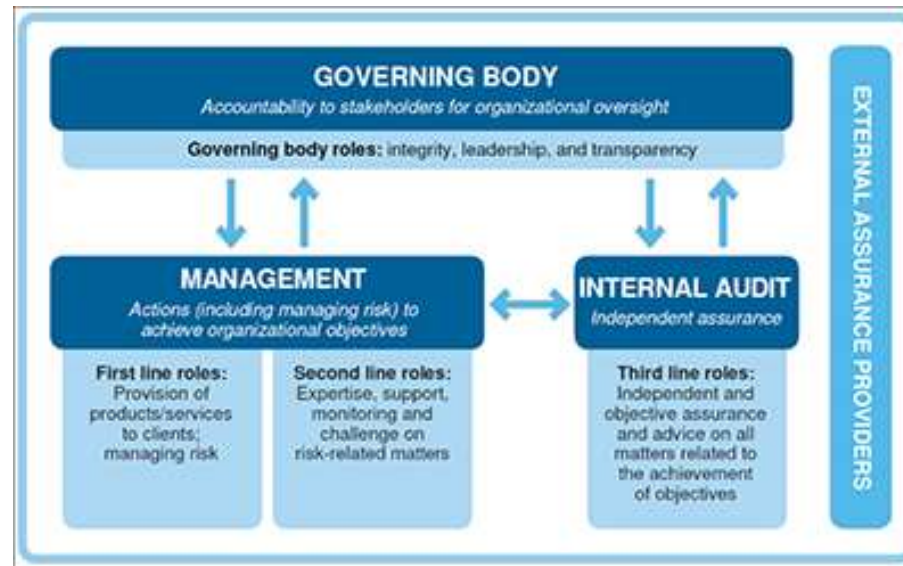- **the third line – functions that provide independent assurance.**

Background

The Internal Audit service for South Somerset District Council is provided by SWAP Internal Audit Services. The team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is 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. This report summarises the activity of the Internal Audit team for the 2020/21 year.

The position of Internal Audit within an organisation's governance framework is best summarised in the Three Lines model shown below.

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

Page 2

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.

Annual Opinion

> On the balance of our 2020/21 audit work for South Somerset District Council, I am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

Just as in more normal times, audit work has been planned to ensure that sufficient assurance will be available to support the annual opinion. The professional requirements of PSIAS have remained unchanged and in line with these, new audit priorities to cover the risks from the impact of COVID-19 have been agreed throughout the year and that work supports the annual opinion.

The additional audits performed to carry out assurance work on new risks associated with the Covid-19 emergency response were:
- Covid-19 Support/Advice
- Grant Funding Schemes Assurance for Local Authorities (Risk Assessment)
- Local restriction Grant Support
- Grant Support – Bank detail checks
- Business Grants - Post Assurance Review
- Compliance & Enforcement Grant
- Fraud Risk – Impact of Covid-19

It has been agreed to defer some of the audit work to 2021/22 and this has been reported throughout the year to the Audit Committee. Where relevant, management provided assurance to the Audit Committee on progress against some of these deferred pieces of work, namely Council Tax and Business Rates.

The following are considered key pieces of audit work that support the annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control:

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

Page 3

Plan Performance 2020/21

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.

Annual Opinion

- *Cyber Security Framework Review*
- *Project Governance – Regeneration Projects*
- *Health & Wellbeing*
- *Income Generation*
- *Budget Planning and Monitoring*
- *Transformation Closedown*
- *Ethical Governance*
- *Risk Management*
- *Commercial Investments*
- *ICT Governance and Risk Review*

Throughout a challenging year, we have tried to ensure a balance between providing direct assistance to the Council and maintaining a continuum of audit work. We are pleased to report we have achieved this, although it must be recognised coverage is not comparable to previous or 'normal' years. The table at Figure 1 below attempts to capture our audit coverage this year, mapped against the Authority's key risks. It must be noted that it is not possible to cover all key risks in any one year but to provide coverage over the medium term.

SWAP
INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

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

Page 4

Summary of Audit Work 2020/21

Internal audit coverage should be aligned to key corporate priorities and key corporate risks.

Audit Coverage by Corporate Risk

Figure 1: Audit Coverage by Corporate Risk

Table Key	Reasonable internal audit coverage 2020-21	Partial internal audit coverage 2020-21	No internal audit coverage 2020-21

Corporate Risk	Coverage	Corporate Risk	Coverage
ST01/F01 – Balanced Budget	Grey	HS01 – Threats to staff	Grey
ST02/FS01 - Transformation	Blue	HS02 – Incident/Accidents public space	Grey
ST03/GL01 – Government Legislation	Grey	HS03 – Incident/Accident SSDC Premises	Grey
ST04/SC01 – Staff Retention	Yellow	HS05 – Exposure to Hazardous Materials	Grey
ST07 – Civil Emergencies	Yellow	HS06 – Accidents through maintenance	Grey
F02 – Overspend/underachieve Income	Blue	SC02 – Quality of work	Yellow
F03 – Missed funding	Yellow	SC03 – Current & Future work requirements	Grey
F04 – Integrity of Finance System	Grey	PP01 – Initiation of Projects	Grey
F05 – Fraudulent Actions	Blue	PP02 – Execution of Projects	Yellow
F06 – Borrowing/Investments	Grey	PP03 – Knowledge on Projects	Grey
F07 – Reserves	Grey	FS02 – Programme Budgets	Yellow
F08 – Partnerships	Grey	FS03 – Engagement in NWOW	Grey
GL02 – Officer Inducement	Blue	FS04 – Customer buy in	Grey
GL03 – Data breaches/losses	Blue	FS06 – Member Portal	Grey
GL05 – Corporate Procedures	Grey	FS07 – NWOW not enabled	Grey
GL06 – Statutory Duties	Yellow	D01 – Digital Strategy not embedded	Grey
GL07 – Decisions	Grey	D02 – Digital Strategy Outcomes	Grey

Definitions of Corporate Risk

High Risk
Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Medium Risk
Issues which should be addressed by management in their areas of responsibility.

Low Risk
Issues of a minor nature or best practice where some improvement can be made.

Significant Corporate Risks

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at a 'Corporate' level once we have tested the controls in place. Where the controls are found to be ineffective and the 'Corporate risk' as 'High' these are brought to the Audit Committees attention. For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

Review Name / Risks
No risks identified as High during period.

Summary of Limited Assurance Audits

Audit Name	Risk Rating	Priority Findings		
		1	**2**	**3**
Project Governance - Regeneration Projects	Medium	0	3	2
Homelessness	Medium	0	3	2
Income Generation / Service Improvements	Medium	0	2	1

Note all these audits have been reported throughout 2020-21 to the Audit Committee.

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

Page 6

Summary of Audit Work 2020/21

At the conclusion of an audit assignment each review is awarded an Audit Assurance Opinion:

- **Substantial - A sound system of governance, risk management and control exists.**

- **Reasonable - Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.**

- **Limited - Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives.**

- **None - The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives.**

Summary of Audit Opinion

TABLE 1: ASSURANCE OPINION

Follow Up 9%
Substantial 4%
Reasonable 18%
Limited 14%
None 0%
Advisory 55%
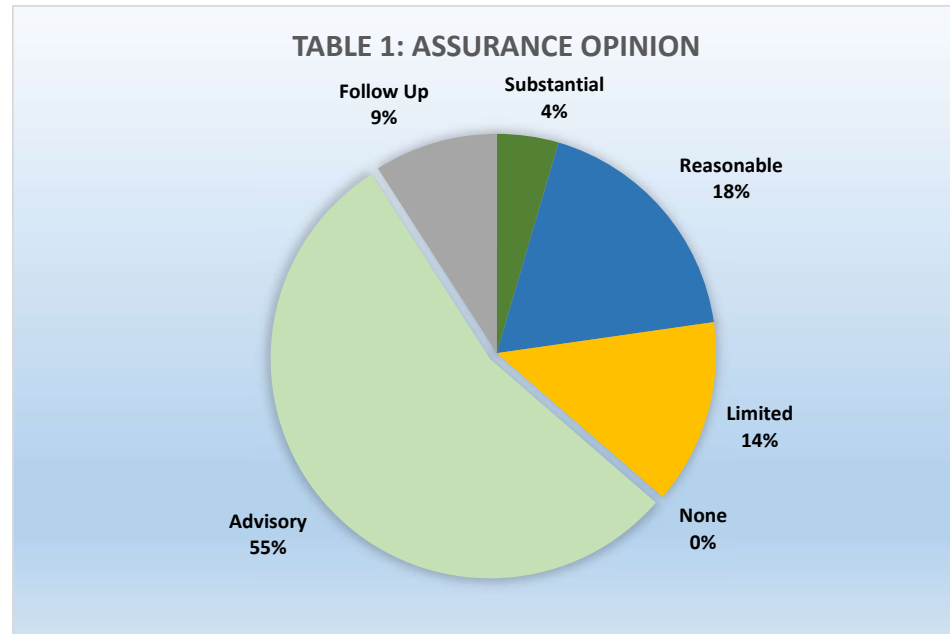
Table 1 above indicates the spread of assurance opinions across our work during the past year (2020-21). Due to Covid-19 more time has been spent on 'Advisory' work.

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

Page 7

SWAP Performance - Summary of Audit Actions by Priority

We rank our actions on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of major concern requiring immediate corrective action

Priority Actions

Agreed Priority Actions 2020-21

Priority	Count
P1	
P2	10
P3	15

Note: Does not include actions from Cyber Security Review and ICT Governance Risk Scope Review. Outcomes from these reviews were not assessed on the priority scoring system, but rather to highlight areas that were fully compliant, requires further work or requires immediate attention.

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

Page 8

Added Value

Extra work that goes beyond the standard expectations and provides something that is beneficial to the customer for little or no extra cost.

Added Value

Throughout the year, SWAP strives to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost.

Benchmarking
During the year we have provided benchmarking data across either the SWAP partnership or the wider reach of the Local Authority Chief Auditors Network (LACAN) for:
- Baseline Assessment of Fraud Maturity Comparison
- Risk Management Maturity Benchmarking
- Covid-19 Grant Controls

Members Training
During November we ran a free Audit Committee Members training event to provide an overview of the role of the Audit Committee as well as 'hot topics' that should be on Audit Committee radars.

News Roundup
We produce a monthly newsletter that provides information on topical areas of interest for public sector bodies. During the early stages of Covid-19 we increased the frequency of our newsflash to weekly/Fortnightly to provide relevant information.

Innovations and Enhancements to our Audit Process
During this exceptional year, we have taken the opportunity to implement and introduce a number of innovations and enhancements to our audit process. This has included:

- Introducing the concept of 'Agile Auditing' to our audit process. With increased collaboration and a joint commitment with the service under review, it is possible to complete audits faster and more efficiently. We have used this concept to complete a number of audits this year.

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

Page 9

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

- With the help of SWAP's two newly appointed Data Analysts, we are looking to include analysis of data as part of our auditing wherever possible. This allows us not only the opportunity to test whole populations of data, but where this is not possible or appropriate, to be able to use data analytics to target our testing in a more effective manner.

- SWAP's Counter Fraud Team has also facilitated access to counter fraud intelligence resources and issued alerts and newsletters to key officers in the Council.

- Introduced a new one-page audit report, that summarises all the key messages of the audit on one page for ease of consumption as well as increasing impact. Feedback on the report style has again been extremely positive.

- Introduced a new continuous audit planning and risk assessment process.

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

Page 10

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 Performance

SWAP's performance is subject to regular monitoring and review by both the SWAP Board of Directors and the Owners Board. The respective outturn performance results for SSDC for the 2020/21 year are as follows:

Performance Target	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion > 90% In progress/Review Yet to complete	90% 10% 0%
Customer Satisfaction Questionnaire Feedback Target > 95%	100%

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

Under these standards we are required to be independently externally assessed at least every five years to confirm compliance to the required standards. SWAP was recently assessed in February 2020 and confirmed that we are in conformance to PSIAS.

Attribute Standard 1300 of the IPPF requires Heads of Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues this dual aspect by stating that the programme must include both internal and external assessments. This acknowledges that high standards can be delivered by managers, but it also implies that improvements can be further developed when benchmarking is obtained from outside the organisation and the internal audit function. Following our External Assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to make, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our actions.

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

Page 11

Summary of Internal Audit Work 2020/21

Audit Type	Audit Area	Qtr	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor Recommendation			Comments
						1	2	3	
FINAL									
Fraud, Corruption and Governance	Boden Mill & Chard Regeneration Scheme Accounts Review	Q1	Final	Advisory	0	0	0	0	
Fraud, Corruption and Governance	**New:** Growth Deal Capital Expenditure Certification	Q1	Final	Advisory	0	0	0	0	
Fraud, Corruption and Governance	Yeovil Cemetery & Crematorium Annual Accounts Controls Assurance	Q1	Final	Advisory	0	0	0	0	
Covid-19 Support	**New:** Covid-19 Support/Advice	Q1	Final	Advisory	0	0	0	0	
Governance Fraud & Corruption	Project Governance - Regeneration Projects	Q1	Final	Limited	5	0	3	2	
Follow Up	Combined Follow up	Q1	Final	Follow up	0	0	0	0	
Covid-19 Support	**NEW:** Grant Funding Schemes Assurance for Local Authorities (Risk Assessment)	Q1	Final	Advisory	0	0	0	0	
Governance Fraud & Corruption	**NEW:** Health & Wellbeing	Q2	Final	Reasonable	2	0	0	2	
Operational	Homelessness	Q2	Final	Limited	5	0	3	2	
ICT	Cyber Security Framework Review	Q3	Final	Advisory	20 key Control areas reviewed. Reported separately to Audit Committee.				
Covid-19 Support	**NEW:** Local restriction Grant Support	Q3	Final	Advisory	0	0	0	0	Support work

SWAP INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

Plan Performance 2020/21

Audit Type	Audit Area	Qtr	Status	Opinion	No of Rec	1 = Major ⟷ 3 = Minor Recommendation			Comments
						1	2	3	
Governance Fraud & Corruption	Income Generation Service Improvements	Q3	Final	Limited	3	0	2	1	
Key Control	Budget Planning and Monitoring	Q3	Final	Reasonable	2	0	0	2	
ICT	ICT Governance and Risk Scope Review	Q3	Final	Advisory	0	0	0	0	
Governance Fraud & Corruption	**NEW:** Covid-19 Grant Processing Support	Q4	Final	Advisory	0	0	0	0	
Covid-19 Support	**NEW:** Grant Support – Bank detail checks	Q4	Final	Advisory	0	0	0	0	
Governance Fraud & Corruption	**NEW:** Council Baseline Assessment of maturity for Fraud	Q4	Final	Advisory	0	0	0	0	
Covid-19 Support	**NEW:** Business Grants - Post Assurance Review	Q4	Final	Substantial	0	0	0	0	
Key Control	Creditors	Q4	Final	Reasonable	3	0	1	2	
Governance Fraud & Corruption	Ethical Governance	Q4	Final	Reasonable	5	0	1	4	
Governance Fraud & Corruption	**NEW:** Compliance & Enforcement Grant	Q4	Final	Advisory	0	0	0	0	
Draft									
Transformation	Transformation closedown	Q2	Draft						
Follow Up	Information Governance GDPR Follow Up	Q4	Draft						
Operational	S106 & CIL	Q4	Draft						

SWAP INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

Plan Performance 2020/21

Audit Type	Audit Area	Qtr	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor Recommendation			Comments
						1	2	3	
Governance Fraud & Corruption	**NEW:** Fraud Risk – Impact of Covid-19	Q4	Drafting						
In Progress									
Governance Fraud & Corruption	Commercial Investments	Q3	In progress						
Governance Fraud & Corruption	Risk Management	Q4	In Progress						
Governance Fraud & Corruption	**NEW:** Fraud Risk Assessment	Q4	In Progress						
Deferred or Removed									
Transformation	Civica Digital Systems Review	Q2							Combined with Transformation Close down
Governance Fraud & Corruption	Somerset Districts Cooperation/collaboration FOLGIS	Q4							**NEW:** Covid-19 Support/Advice **NEW:** Grant Funding Schemes Assurance for Local Authorities (Risk Assessment)
Governance Fraud & Corruption	Climate Change	Q4							
ICT	Digital Strategy & Transformation	Q3							Pushed back due ICT audits bottleneck. Replaced by Health & Wellbeing
Governance Fraud & Corruption	Yeovil Innovation Centre (YIC) Phase 2	Q4							**NEW:** Local restriction Grant Support Q3 **NEW:** Grant Support – Bank detail checks Q4 **NEW:** Council Baseline Assessment of maturity for Fraud **NEW:** Fraud Risk Assessment
Key Control	Council Tax & NNDR	Q4							

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

Page 14

Plan Performance 2020/21

Audit Type	Audit Area	Qtr	Status	Opinion	No of Rec	1 = Major	↔	3 = Minor	Comments
						Recommendation			
						1	2	3	
Key Control	Housing Benefits	Q4							**NEW:** Fraud Risk – Impact of Covid-19 **NEW:** Covid-19 Grant Processing Support Q4
Governance Fraud & Corruption	Procurement – Leisure Contract	Q4							**NEW:** Compliance & Enforcement Grant Management provided an update to Audit Committee in March for Housing Benefits and CTax. Procurement – Leisure is earmarked for Q1 2021-22

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

Page 15