

South Somerset District Council

Report of Internal Audit Activity

2021-22 Progress Update Report July 2021

Contents

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➤ Summary:		
	Contents	Page 1
	Role of Internal Audit	Page 2
➤ Control Assurance:		
	Internal Audit Work Programme Update	Page 3
	Significant Corporate Risks	Page 4
	Summary of Limited or No Assurance Opinions	Pages 4-5
	Summary of Follow up Audits	Pages 5-6
	Summary of other relevant audit work	Pages 7- 11
➤ Plan Performance:		
	SDDC Plan Performance	Page 12
	Changes to the Audit Plan	Page 13-14
➤ Appendices:		
	Appendix A – Audit Framework Definitions	Page 15
	Appendix B – Summary of Work Plan	Pages 16-19

Internal Audit Plan Progress 2021-22

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for the South Somerset District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting in March 2021.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Management Team. This year's Audit Plan was reported to and approved by this Committee at its meeting in March 2021. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Internal Audit Plan Progress 2021-22

Outturn to Date:

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



Internal Audit Work Programme Update

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2021/22. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed on **Appendix A** of this document.

The following table summarises Audits finalised since the last update in May 2021:

Audit Area	Opinion
Information Governance GDPR Follow up	Non-Opinion
Transformation Closedown	Non-Opinion
Fraud Risk Impact of Covid-19	Reasonable
Risk Management	Reasonable
Commercial Investments	Substantial
Community Infrastructure Levy	Substantial
Section 106	Limited
Boden Mill Site and Chard Regeneration Scheme Accounts	Non-Opinion
Growth Deal Capital Expenditure (YIC Phase 2)	Non-Opinion

Internal Audit Plan Progress 2021-22

Significant Corporate Risks

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

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

- Limited or No Assurance Opinions
- Follow-ups



Significant Corporate Risks

We provide a definition of the 3 Risk Levels applied within audit reports and these are detailed in **Appendix A**. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with significant corporate risks.



Summary of Work Completed – Limited or No Assurance Opinions

In this update there was one final reports with limited or no assurance opinions.

Section 106 – Limited Assurance

This audit covered Section 106 and the Community Infrastructure Levy. The work completed identified that while the CIL was very well controlled there were weaknesses in the S106 processes. This has resulted in us providing split assurance for the work.

Key findings from the review were:

- There is not a complete and accurate record of all S106 agreements in place although work is being undertaken to rectify. This should be completed before uploading onto Exacom.
- The process to monitor contributions that could be returned to developers is ineffective and the Localities team are not notified when S106 contributions are received. The spreadsheet maintained by the Localities team has not been updated since 2019.
- No reports are produced for Senior Management or Members on the S106 contributions received and spent. The implementation of Exacom should enable valuable reports to be produced. Having a public facing version of Exacom will enable live data to be reviewed by interested parties.
- The process for monitoring and managing S106 management and monitoring is currently unclear. There are many different services involved in the process but there is only one Officer in post to monitor and manage both S106 contributions, Community Infrastructure Levy and implement Exacom.

Internal Audit Plan Progress 2021-22

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

- Limited or No Assurance Opinions
- Follow-ups



Summary of Work Completed

A new system is expected to be implemented this financial year. Work will be needed to ensure the data entered is complete and accurate. It is hoped that the new system will enable regular reporting to begin and allow for easier monitoring across all relevant teams. Actions to address the weaknesses should be completed by November and the public facing version of Exacom by April 2022. We have added a follow up for later in 2021-22.



Summary of Work Completed – Follow up Audits

Information Governance/GDPR - Follow Up

Limited assurance was given on the original audit completed in 2019/20. A follow up was conducted to assess the progress made against the recommendations raised. The table below shows the progress recorded.

Progress Summary				
	Complete	In Progress	Not Started	Total
Priority 1	0	1	0	1
Priority 2	2	2	0	4
Priority 3	3	0	0	3
Total	5	3	0	8

The Coronavirus has had an impact on the work that has been able to do around the recommendations made. While this has sped up the completion of some of the recommendations it has also hindered some.

To summarise the recommendations outstanding and in progress as at April 2021:

Internal Audit Plan Progress 2021-22

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

- Limited or No Assurance Opinions
- Follow-ups

Summary of Work Completed – Follow up Audits

Priority 1 Recommendation - *the DPO ensures the Information Asset Register is fully updated and a review process is introduced to ensure it stays up to date and accurate.*

The register has now been reviewed by the Data Protection Officer. This was completed during 2020-21 with emails sent out to all the information asset owners asking them to review their information ahead of the Brexit deadline. However, a process for a review has not been put in to place yet. A target date of August 2021 has been set to complete this.

Priority 2 Recommendation – *the DPO ensures that each service area has a privacy policy introduced and that the privacy notices are updated to clearly state the legal basis for processing data and the specified purpose of processing.*

There was work planned to complete these however, this has not been completed by the different services due to covid-19 as teams were either expected to pick up additional work to deal with the Pandemic or redeployed to help. It has forced a re-evaluation of priorities for the year. A revised target date has been set for the end of July 2021.

Priority 2 Recommendation - *the DPO ensures a retention policy is drafted and processes are put in place for all services and ensures data is only retained during the retention period.*

The retention schedule has been put on the council portal so all staff have access to it. However, Legal have not been able to review it and it may now be out of date or not relevant to the services. Before we can say this recommendation is complete the retention schedule needs to be reviewed.

Internal Audit Plan Progress 2021-22

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

Summary of Work Completed

The following Audits are being reported to Members as these are important areas of governance and risk which Members should be aware of the outcomes from our work given their role in oversight of governance, risk and control.

Transformation Closedown – Non-Opinion

This audit was to review the transformation programme and identify what lessons needed to be learnt from the Programme. The audit identified lessons to be learnt in relation to:

- Technology
- Benefits Realisation
- Staffing requirements and role definition
- Performance/Data Collection

The Key findings from this audit are in the table below:

- The Council were ambitious in what they wanted to deliver in the timeframe. Several of the transformation objectives were heavily dependent on the use of technology and the Council did not fully understand the resources required to fully implement all activities at the outset of the project.
- There was no process in place for monitoring and reporting on achievement of non-financial benefits during the transformation programme.
- Staffing numbers were reduced as part of the transformation programme, however the programme had not fully achieved its planned efficiencies at the points numbers were reduced. This has resulted in increased work for remaining staff. Additional resources post-transformation were brought in to help reduce the pressure on staff. In Planning and Legal staff numbers were reduced but the planned new processes or efficiencies were not introduced in the planned timeframe, putting pressure on the Council to meet its service delivery standards in these areas and putting pressure on the staff's wellbeing.
- The Council achieved their financial savings target as part of the transformation programme, with the revised operating model coming into effect on 1st January 2019.

Internal Audit Plan Progress 2021-22

Completed Assignments:

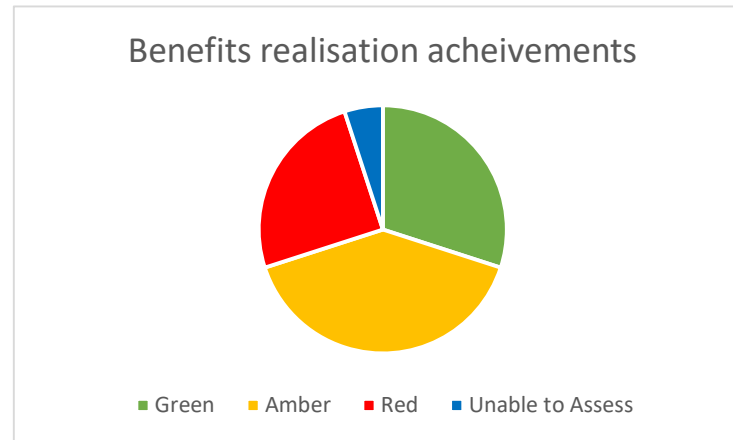
Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.



Summary of Work Completed

- The recruitment and redundancy process were well managed and controlled which enabled the Council to ensure they had the opportunity reduce the impact of knowledge drain from those who did leave the organisation during the transformation process.
- The introduction of Agile working has been a success and allowed for an easier transition to working from home during the Covid-19 Pandemic than would have been possible if this had not been progressed as part of the transformation programme.

The audit also assessed the Councils progress against the non-financial Benefits originally identified in the Business case. The graph below shows the results of this as a RAG status. This does not include the financial benefits as this covered in an earlier piece of work.



Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

Summary of Work Completed

Fraud Risk Impact of Covid-19 – Reasonable Assurance

It is widely accepted that fraud risks increase in times of change or crisis. Due to the ongoing pandemic, we carried out an audit to assess what impact Covid-19 was having on the fraud risks the Council face. The audit assessed the following areas as part of this work: Governance, Covid-19 Grants, Procurement, ICT/Cyber/Data Security, Payroll/Recruitment and staff. The assessments for these areas is shown below:



The main findings from this review is that no Fraud Risk Assessment has been undertaken by the Council. SWAP is in the process of completing a Fraud Risk Assessment for SSDC to help identify weaknesses in their current controls across services. The results of this Fraud Risk Assessment will be shared with Senior Management and Members of the Audit Committee to assist in their oversight role on counter fraud and corruption.

Another finding was that the Pandemic reduced the level of performance reporting being undertaken by SSDC. This was to help staff to focus on the Pandemic response but reduced the oversight of Senior Managers and Members.

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.



Summary of Work Completed

Risk Management – Reasonable Assurance

Support and advice has previously been provided while the new risk management process was being implemented. This audit was the first time since implementation that we have provided an assurance opinion on the current process. The audit assessed the below controls:

- Risk Management Policy in place which underpins strategy for the identification/assessment/management of risks.
- Staff and member training and knowledge/awareness surrounding risk management.
- Central repository of risks at both a strategic and operational level.
- Risks regularly reviewed and reported to SLT and Members.
- Risk Management is embedded into the culture of the organisation.
- Central repository for opportunities identified at both a strategic and operational level.

The audit was given reasonable assurance. The key findings from this work were:

- Findings and actions from internal/external audits are not integrated into the risk management process.
- Risk Management training requirements need to be identified across staff and Members and then training rolled out as appropriate and in accordance with involvement in the risk management process.
- There are no arrangements for intelligence/information sharing between risk and insurance officers. A review will be carried out into risk appetite thresholds and scoring with an independent risk consultant.

Commercial Investments – Calculation of Returns & Reporting – Substantial Assurance

The review of commercial investments focused on the below controls:

- Investment income is clearly recorded on receipt and all relevant records updated.
- There is a clear and consistent approach to calculating levels of gross income to be moved to reserves and MRP by finance.
- There is a clear and consistent approach to calculating income data to be reported to Members.

Internal Audit Plan Progress 2021-22

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.



Summary of Work Completed

- Data in reports to Members can be directly linked back to the original calculations.
- Changes to processes needed to manage the impact of Covid-19 have been identified, recorded, and implemented.

Key findings for this work were that reports to Members could provide more information on tenants that were missing payments to improve the transparency. We also identified that there is no reconciliation between the finance records and the commercial team records. All invoices are raised on the financial system so this is just to confirm both records tally and any changes in rents are recorded and updated across all records.

Overall, there was a clear process in place to ensure that the relevant contributions are made for reserves, Minimum Revenue Provision (MRP) and interest for all the investment properties. Budget monitoring is undertaken for commercial investments and can be clearly reported to Members as part of the regular monitoring processes should large variances occur.

It should be noted that the rules regarding the use of the Public Works Loan Board (PWLB) have been changed. Now if a Council has any plans to purchase property for investment purposes, they are no longer allowed to access the PWLB for loans for this or any other purpose. This has the potential to impact on the Council's future projects. We note that in the last two years SSDC have not used the PWLB for any loans and that the Council does have other options for borrowing money.

Internal Audit Plan Progress 2021-22

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 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for South Somerset District Council for the 2021/22 (as of 05 July 2021) were as follows:

Performance Target	Target Year End	Average Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Yet to complete</p>	>90%	14% 9% 77%
<p><u>Quality of Audit Work</u> Customer Satisfaction Questionnaire</p>	>95%	Too early to report
<p><u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p>	>95%	

Internal Audit Plan Progress 2021-22

We keep our audit plans under regular review so as to ensure that we are auditing the right things at the right time. Due to Covid-19 the plan priority areas will be agreed on a quarter-by-quarter basis.



Approved Changes to the Plan

The audit plan for 2021/22 is detailed in **Appendix B**. The Plan is flexible throughout the year and targeted short-term priorities as agreed with SLT on a quarterly basis. Since the 2021-22 plan was agreed in March 2021 the below changes have been made.

Additional Pieces of work

At the time of agreeing the audit plan in March 2021 a provision for ICT reviews was included within the plan. Following completion of the Cyber Security and ICT Governance reviews a full detailed schedule has now been agreed for 2021-22. The schedule includes two options for each quarter of which one review will be delivered. The schedule for ICT reviews is as follows:

- Q1 - **NEW**: Patch Management
- Q2 - **NEW**: Software Licensing or User Access Management Arrangements has been added as an ICT audit for Q2. One of these will be completed to cover the Cyber Security Focused Review.
- Q3 - **NEW**: Incident Management, BCP & DR or Information Security (IS) Governance, Policy, Training & Compliance as been added as an ICT audit for Q3. One of these will be completed to cover the Governance/Digital Review.

The following reviews have been added to the Audit Plan to undertake follow up work on areas where control weaknesses have been identified. This is to provide assurance to Senior Management and the Audit Committee that areas given 'limited' or 'No' Assurance have implemented the recommendations raised.

NEW: Income Generation Follow up: Added to Q4 as original work finalised after the original plan was submitted.

NEW: S106 Follow up: Added to Q4

Internal Audit Plan Progress 2021-22

We keep our audit plans under regular review so as to ensure that we are auditing the right things at the right time. Due to Covid-19 the plan priority areas will be agreed on a quarter-by-quarter basis.

Approved Changes to the Plan

Following a review with SLT the following audits have been deferred and have been added to the rolling plan so these areas stay on the Audit radar:

- **Q1 Complaint Procedures:** The new Monitoring Officer is reviewing these arrangements so an audit review will be conducted at a later date once the new arrangements have been implemented.
- **Q2 Planning policy Change – Phosphate:** There is still no solution in place and therefore nothing to review at this time.
- **Q3 Decarbonisation Grant:** SSDC have further work to do before we undertake a review in this area.

Due to change in arrangements the following review has been removed from the Audit Plan as it is no longer applicable:

- **Q1 Restart Grants:** this has been removed from the plan. The original work was to support the checking of bank details. This is now being completed using NFI to check the details match the business name.

Assurance Definitions

No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally 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 in the area audited.
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Non-Opinion/Advisory	In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both Senior Management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

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

Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
					Major		Minor	
					Recommendation			
					1	2	3	
Completed Work								
Fraud, Corruption and Governance	Boden Mill & Chard Regeneration Scheme Accounts Review	Final	Advisory	0	0	0	0	
Fraud, Corruption and Governance	New: Growth Deal Capital Expenditure Certification	Final	Advisory	0	0	0	0	
Reporting								
Fraud, Corruption and Governance	Yeovil Cemetery & Crematorium Annual Accounts	Draft						
In Progress								
ICT	New: Patch Management	In Progress						
Fraud, Corruption and Governance	Procurement	In Progress						
Not Started								
Fraud, Corruption and Governance	Covid-19 Discretionary grants	Not Started						
Fraud, Corruption and Governance	Covid-19 Grants – Post Payment Assurance	Not Started						
Follow Up	Project Governance Regeneration Projects Follow Up	Not Started						
Fraud, Corruption and Governance	Chard Regeneration Project	Not Started						
Fraud, Corruption and Governance	Covid-19 - External Recovery plan	Not Started						

Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
					Major		Minor	
					Recommendation			
1	2	3						
Fraud, Corruption and Governance	Covid-19 - Financial Impacts and Lessons learned	Not Started						
Follow Up	Homelessness Follow Up	Not Started						
ICT	Software Licensing OR User Access Management arrangements	Not Started						
Key Control	Council Tax & NNDR	Not Started						
Key Control	Debtors	Not Started						
Key Control	Housing Benefit	Not Started						
Operational	Health & Safety Framework	Not Started						
Fraud, Corruption and Governance	Opium arrangements	Not Started						
ICT	Incident management, BCP & DR OR Information Security (IS) – governance, policy training and compliance	Not Started						
Fraud, Corruption and Governance	Commercial investments	Not Started						
Follow Up	NEW: Income Generation Follow up	Not Started						
Follow Up	NEW: S106	Not Started						

Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
					Major		Minor	
					Recommendation			
					1	2	3	
Deferred or Removed								
	Complaint Procedures							
	Restart Grants							Removed: Assurance through NFI checking
	Planning policy Change - Phosphate							
	Decarbonisation Grant							
Outstanding From 2020/21								
Transformation	Transformation Closedown	Final	Non-Opinion	-	-	-	-	See Pages 7 & 8
Operational	S106	Final	Limited	4	-	4	-	Work completed as 1 audit, but separate opinions given due to different processes in place for each element. See pages 4 & 5
Operational	CIL	Final	Substantial	1	-	-	1	
Governance Fraud & Corruption	Fraud Risk Impact of Covid-19	Final	Reasonable	5	-	3	2	See Page 9
Governance Fraud & Corruption	Risk Management	Final	Reasonable	4	-	-	4	See Page 10
Follow Up	Information Governance GDPR Follow Up	Final	Non-Opinion	-	-	-	-	See pages 5 & 6

Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
					Major		Minor	
					Recommendation			
1	2	3						
Governance Fraud & Corruption	Commercial investments – Calculations of Returns	Final	Substantial	3	-	-	3	See Pages 10 & 11
Governance Fraud & Corruption	Fraud Risk Assessment	In Progress						