

South Somerset District Council

Internal Audit Annual Opinion Report 2021/22

Internal Audit Annual Opinion – 2021/22: ‘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.

- Medium risk rated weaknesses identified in individual audit engagements
- Isolated high risk related weaknesses identified for isolated issues
- No critical risk rated weaknesses identified
- Internal Audit is broadly satisfied with management’s approach to resolving identified issues

The Headlines

	Key area to focus on: Lufton Depot – culture and code of conduct area for improvement with a total of 14 priority two recommendations for improvement.
	Key area to focus on: Regeneration Project Governance – A number of lessons for improvement identified during 201-22. As reported to Audit Committee May 2022 Management have rolled out new governance arrangements.
	19 reviews included in the 2021/22 Internal Audit Plan. Includes assurance, advisory and follow up reviews (17 final/complete and 2 in progress). Reduced number of audits due to time spent on Lufton Depot.
	Implementation of agreed actions from Follow up work New recommendation tracking database up and running.
	Internal Audit staff supporting on the preparation work for LGR in Somerset Attending meetings with workstream leads to support in identifying potential areas for audit work. Identifying lessons learnt from previous LGRs and providing advice on workstream delivery.

Internal Audit Assurance Opinions

	20/21	21/22
Substantial	3	0
Reasonable	6	3
Limited	4	1
No Assurance	0	0
Advisory	13	10
Follow Up	2	3
Total	28	17

Internal Audit Agreed Actions 2021-22

	20/21	21/22
Priority 1	0	0
Priority 2	16	20
Priority 3	23	12
Total	39	32

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.

Executive Summary

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.

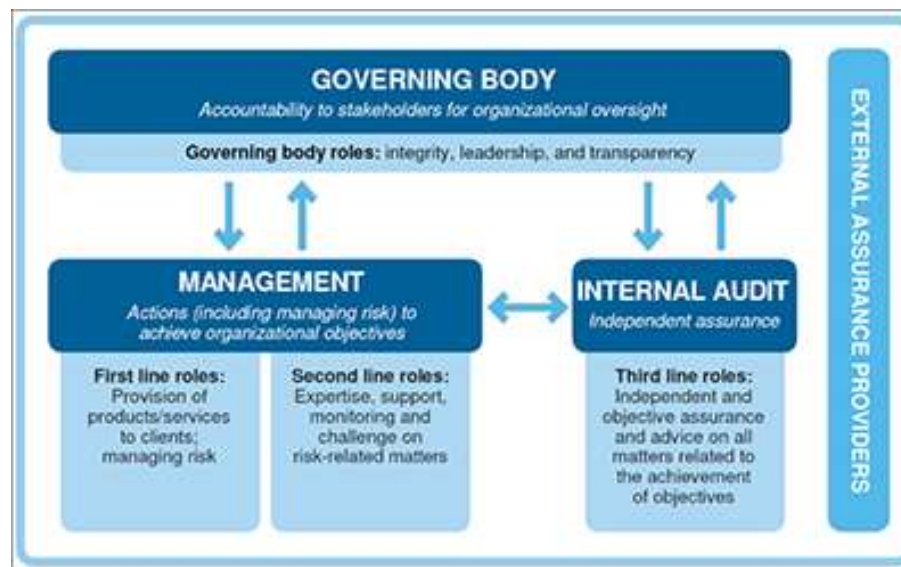


Background

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 2021/22 year.

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



Internal Audit Annual Opinion 2021/22

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 2021/22 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.

Opinions are a balanced reflection across the year and not a snapshot in time. In forming this opinion, the following sources of information have been used:

- Completed audits which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regulations.
- Observations from consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Grant certification work.
- Assurances from other providers, including third parties, regulator reports etc.

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 ongoing impact of COVID-19 and Local Government Reorganisation have been agreed throughout the year and that work supports the annual opinion.

In terms of breadth of coverage, audit work has been performed across the Council's key services and in relation to its strategic risks where possible. A summary of audit work carried out against the Council's risks are summarised in table 1 below. 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. It must also be recognised coverage is not comparable to previous 'normal' years with resources directed to the Lufton Depot piece of work and the impact from Covid.

Plan Performance 2021/22

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

Annual Opinion

Whilst the agreed internal audit plan forms the basis of the annual opinion, we have not been able to complete work around the commercial investments and in particularly Opium. Therefore, I would highlight commercial investments as a limitation area to our opinion from the agreed audit plan.

Summary of Audit Work 2021/22

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

The South Somerset District Council Risk Register is a live document and subject to change throughout the year as the risk environment that SSDC operates in changes. Therefore, this table reflects a summary of coverage against shifting priorities throughout the year in terms of corporate and operational risks.



Audit Coverage by Corporate Risk

Table 1: Audit Coverage by Corporate Risk

Table Key	Reasonable internal audit coverage 2021-22	Partial internal audit coverage 2021-22	No internal audit coverage 2021-22
Corporate Risk	Cover	Corporate Risk	Cover
Increasing numbers of public needing our services		Lower Business Rates Income than anticipated	
COVID-SSDC not being prepared for Business continuity issues/civil contingency enactment		Risk of deterioration in quality of working being delivered by staff	
Failures in compliance and practice – H&S		Loss of stakeholder support to projects	
Poor implementation/failure of H&S framework		Failure to deliver statutory functions	
Poor/partial planning and execution of strategic priority projects		Potential lack of organisational capacity to deliver key objectives	
Members lose engagement & focus on strategic priorities post-election during LGR		Further local/national pandemic restrictions impact daily council business	
Lack of change readiness/resilience by staff to the LGR transition period		Ineffective/inadequate delivery to customers through partnerships	
Staff morale/wellbeing affected by organisational pressures and LGR		Failure in statutory compliance and practice - equalities	
Covid - Supply Chain issues impacting the costs and delivery of materials and services		Failure in compliance and practice - Information Governance	
Lack of organisational knowledge base on projects		Risk of failing to retain staff	
LGR programme creates tensions shifting priorities/tensions between BAU & LGR		Risk of officer or member inducement, bribery or corruption	
Risk to confidentiality, integrity or availability of information assets due to malicious activity or user error		Reputational damage if regeneration projects are not delivered/proposed changes are not well presented	
Governance/decisions on use of public money		Reputational harm due to all ongoing issues	
Borrowing costs increase pressure on budgets		Failure to comply with corporate procedures	
Increase in inflation risking cost overspends		Inability to recruit to resourcing needs	
External project funding is less than anticipated		Financial system risks	
Management of financial/commercial investments			

Plan Performance 2021/22

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
Lufton Depot Investigation / Weaknesses in workplace culture and code of conduct

Summary of Limited Assurance Audits

Audit Name	Risk Rating	Priority Findings		
		1	2	3
Council Tax & NNDR	Medium	-	4	1
Chard Regeneration Lessons Learned	Medium	18 lessons across five Key theme areas for improvement		
Lufton Depot Investigation Controls Report	N/A	0	14	0

Note all these audits have been reported throughout 2021-22 to the Audit Committee.

Summary of Audit Work 2021/22

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

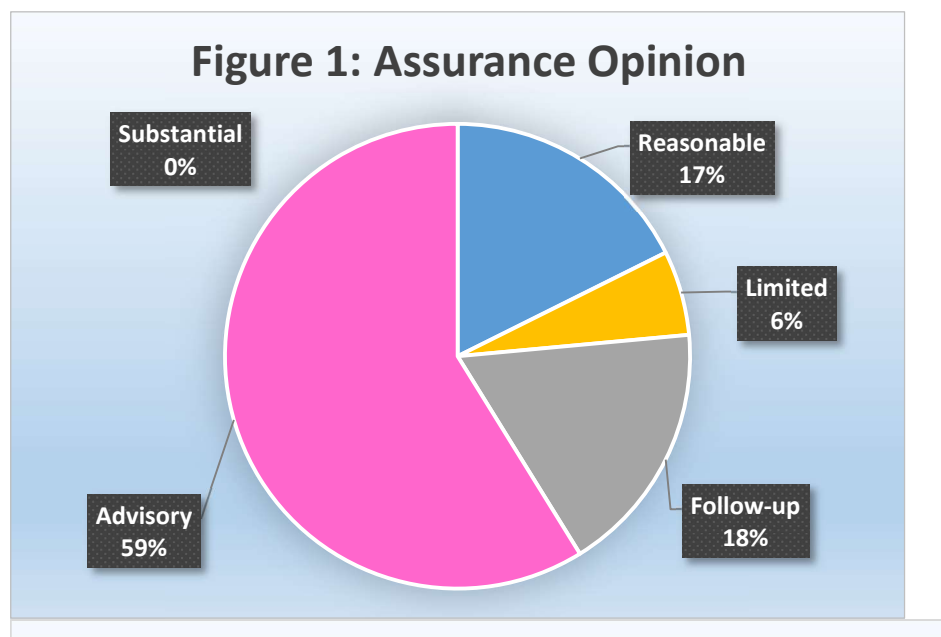


Figure 1 above indicates the spread of assurance opinions across our work during the past year (2021-22). Due to Covid-19 more time has been spent on 'Advisory' work.

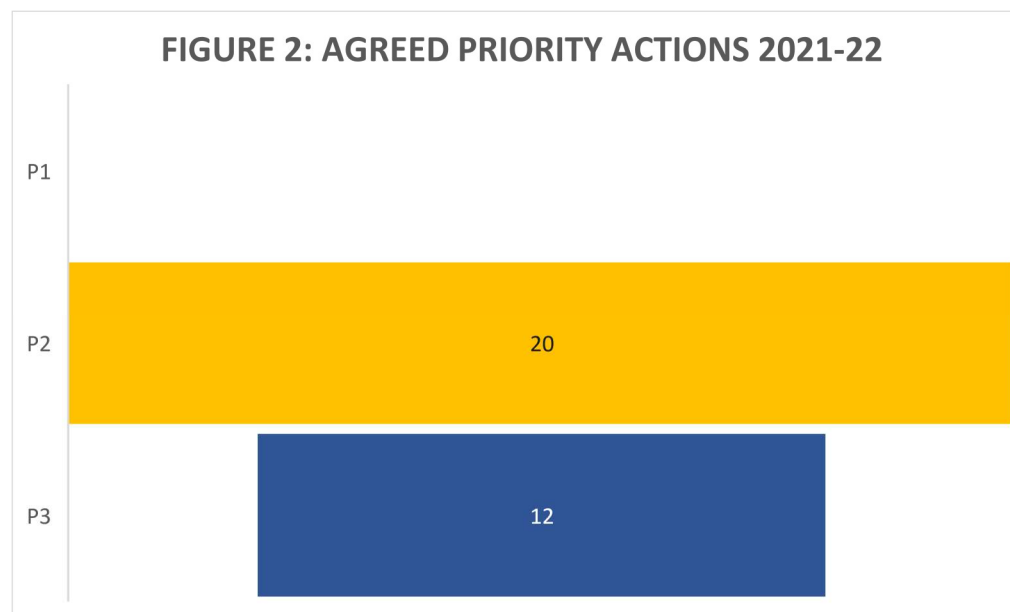
Summary of Audit Work 2021/22

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



A number of advisory reviews do not have priorities rating recommendations, such as grant certification and lessons learned.

Plan Performance 2021/22

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 2021/22 year are as follows:

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

Summary of Internal Audit Work 2021/22

Audit Type	Audit Area	Status	Opinion	No of Rec	1 = Major	↔	3 = Minor	Comments
					Recommendation			
					1	2	3	
Completed Work								
Advisory	Fraud Risk Assessment	Final	Advisory	0	0	0	0	
Assurance	Boden Mill & Chard Regeneration Scheme Accounts Review	Final	Advisory	0	0	0	0	
Assurance	Growth Deal Capital Expenditure Certification	Final	Advisory	0	0	0	0	
Assurance	Yeovil Cemetery & Crematorium Annual Accounts	Final	Advisory	1	0	0	1	
Assurance	Patch Management	Final	Reasonable	2	0	0	2	
Assurance	Procurement	Final	Reasonable	4	0	1	3	
Assurance	Homelessness Follow Up	Final	Follow Up (Advisory)	5	0	3	2	Relates to outstanding recommendations raised in 2020-21
Assurance	Chard Regeneration Project – Lessons Learnt	Final	Advisory	-	-	-	-	No formal recommendation raised but lessons learnt have been captured for future work.
Grant Certification	Green Homes Grant	Final	Grant Certification	-	-	-	-	
Confidential matter	Lufton Depot	Final	Advisory	14	-	14	-	Review includes separate controls assurance report.
Assurance	Project Governance Regeneration Projects Follow Up	Final	Follow Up (Advisory)	3	-	2	1	Two recommendations complete. 1 P2 and 1 P3.
Assurance	Covid-19 - External Recovery plan	Final	Advisory	4	-	1	3	



Summary of Internal Audit Work 2021/22

Audit Type	Audit Area	Status	Opinion	No of Rec	1 = Major	↔	3 = Minor	Comments
					Recommendation			
					1	2	3	
Assurance	Council Tax & NNDR	Final	Limited	5	-	4	1	
Assurance	Debtors	Final	Reasonable	3	-	-	3	
Advisory	Audit Committee Terms of Reference Support	Final	Advisory	-	-	-	-	
Advisory	ICT & Digital Minimum Viable Products (MVP)	Final	Advisory	-	-	-	-	
Assurance	NEW: S106 Follow up Audit	Final	Follow Up	2	-	2	-	
Reporting								
Advisory	NEW: Unitary lessons Learned	Drafting	Advisory					
In Progress								
Assurance	Opium arrangements	In Progress						
Fraud, Corruption and Governance	Commercial investments	In Progress						
Deferred (moved to rolling schedule of Audits) or Removed (no longer risk/area to audit)								
Fraud, Corruption and Governance	Complaint Procedures	Deferred	Reported to Audit Committee July 2021					
ICT	Incident management or Information Security (IS)	Deferred	Reported to Audit Committee October 2021					
Follow Up	Income Generation Follow up	Removed	Separate update on recommendations to be provided from management					

Summary of Internal Audit Work 2021/22

Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
					Major		Minor	
					Recommendation			
					1	2	3	
Operational	Health & Safety Framework	Deferred	Reported to Audit Committee October 2021					
Key Control	Housing Benefit	Deferred	Reported to Audit Committee October 2021					
Fraud, Corruption and Governance	Covid-19 - Financial Impacts and Lessons learned	Removed	Reported to Audit Committee October 2021					
Fraud, Corruption and Governance	Restart Grants – Bank Account Check	Removed	Reported to Audit Committee July 2021					
Fraud, Corruption and Governance	Planning policy Change - Phosphate	Deferred	Reported to Audit Committee July 2021					
Fraud, Corruption and Governance	Decarbonisation Grant	Deferred	Reported to Audit Committee July 2021					
Assurance	User Access Management arrangements	Deferred	Reported to Audit Committee May 2022					
Assurance	Covid-19 Discretionary grants	Deferred	Reported to Audit Committee May 2022					
Grant Certification	Covid-19 Grants – Post Payment Assurance Restart Grant	Deferred	Reported to Audit Committee May 2022					
Grant Certification	NEW: Decarbonisation Grant CIA Sign-Off	Deferred	Reported to Audit Committee May 2022					
Grant Certification	NEW: Decarbonisation Grant CIA Sign-Off	Deferred	Reported to Audit Committee May 2022					