



SWAP

INTERNAL AUDIT SERVICES

Assuring – Improving – Protecting

Somerset West and Taunton

Report of Internal Audit Activity

Plan Progress 2019/20 – January 2020

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Unrestricted

Contents

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Internal Audit Plan Progress 2019/2020

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Follow Up**
- **Non-Opinion / Advisory Reviews**



Role of Internal Audit

The Internal Audit service for the Somerset West and Taunton Council is provided by SWAP Internal Audit Services (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 Shadow Corporate Governance and Standards Committee at its meeting in March 2019.

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

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Follow Up
- Non-Opinion / Advisory Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team. This year's Audit Plan was reported to the Shadow Corporate Governance Committee and approved at its meeting in March 2019.

Audit assignments are undertaken in accordance with this Audit Plan to assess current levels of governance, control and risk.

Internal Audit Plan Progress 2019/2020

Outturn to Date:

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



Internal Audit Work

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2019/20. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

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

The following table summarised Audits finalised since the previous update in September 2019:

Audit Area	Quarter	Status	Opinion
2019/20			
New Council Governance Follow Up	1	Final	Advisory
Payroll System	2	Final	Partial
Information Management Project	2	Final	Partial
Housing Benefits	3	Final	Reasonable
Council Tax/NDR	3	Final	Reasonable
Banking Arrangements	3	Final	Partial

Partial Assurance Audits (See Appendix C)

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified.

Since the September 2019 update there are three ‘Partial Assurance/No Assurance’ reviews I need to

Internal Audit Plan Progress 2019/2020

We rank our risks as 'High', 'Medium' or 'low'. Definitions of the risk assessment can be found in Appendix A.

bring to your attention; Payroll, Information Management Project and Banking Arrangements. These three audits are detailed further in **Appendix C**.

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 an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place, we re-evaluate the risk based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the residual risk is assessed as 'High', I will bring this to your attention.

Since the September 2019 update there is one corporate risk to bring to your attention from the Information Management audit:

- The Council fails to manage its data leading to non-compliance with Data Protection Act (2018) and GDPR leading to financial and reputational damage.

Further details regarding the Information Management audit are captured in **Appendix C**.

Plan Progress Performance

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



Plan Progress Performance

SWAP now provides the Internal Audit service for 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for Somerset West and Taunton for the 2019/20 (as at 17 December 2019) were as follows:

Performance Target	Target Year end	Average Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Not Started</p>	>90%	48% 28% 24%
<p><u>Quality of Audit Work</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p>	>95%	100%
<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%	Reported Year end

Internal Audit Work Plan

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

Approved Changes to the Audit Plan

The audit plan for 2019/20 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Somerset West and Taunton. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

Performance management has been deferred to next year at the request from the service who have stated that a number of controls are still in development:

- **No Performance management framework** – the service has advised that this is under development, but not completed or implemented yet and needs to be agreed by SLT and communicated across the organisation.
- **Alignment of corporate objectives** – the Corporate Plan has recently been agreed, and a new process for developing operational plans has just been launched but these won't be complete for a few months yet.
- **Performance measures and reporting** – The service has advised that a high-level performance report has been in place since June and is reported on a monthly basis to SLT. This is being supported by performance reports for each service which are still being developed.

As we will be unable to complete testing in this area and the recognised weaknesses, this will be taken into account when forming our annual opinion for 2019-20.

Special Investigations

One fraud investigation has been received in relation to Housing following a whistleblowing allegation. The investigation is currently ongoing and no further information will be provided at this time.

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



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- No Assurance
- Non-Opinion/Advisory

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.
No Assurance	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion/Advisory – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.



Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

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

Definitions of Risk

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

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ←→ 3 = Minor			Comments
						Recommendation			
						1	2	3	
FINAL									
Follow Up	Housing - Fire Safety Management Follow Up	1	Final	Advisory	9	4	3	2	
Follow Up	Supplier Resilience Follow-Up	1	Final	Advisory	6	0	1	5	
ICT Audit	Migration and integration of key systems for Single Authority (Creditors, Debtors GL)	1	Final	Reasonable	2	0	1	1	
Governance, Fraud & Corruption	New Council Governance Follow Up	1	Final	Advisory	4	-	-	-	
Follow Up	Bereavement Service Follow Up	2	Final	Advisory	5	0	2	3	
Key Control	Payroll System	2	Final	Partial	5	0	0	5	See Appendix C
ICT Audit	Information Management Project	2	Final	Partial	6	1	4	1	See Appendix C
Key Control	Housing Benefits	3	Final	Reasonable	2	0	0	2	
Key Control	Council Tax/NDR	3	Final	Reasonable	2	0	0	2	
Key Control	Banking arrangements	3	Final	Partial	5	0	1	4	See Appendix C
DRAFT									
Key Control	Treasury Management	3	Draft						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
Governance, Fraud & Corruption	Transformation - Lesson Learned	2	Draft						Draft report close-out meeting postponed due to illness, rescheduled for new year.
IN PROGRESS									
Governance, Fraud & Corruption	Transition Arrangements	1	Scoping						
Key Control	Housing Rents	3	In Progress						
Key Control	Creditors	3	In Progress						
Key Control	Debtors	3	In Progress						
Key Control	Main Accounting, including budget responsibility	3	In Progress						
Governance, Fraud & Corruption	Business Continuity Planning (includes links to DR)	4	In Progress						
Special Investigation	New: Whistleblowing Allegation - Housing	3	In Progress						
NOT STARTED									
Governance, Fraud & Corruption	Risk Management	4							
Key Control	System Parameter testing Civica	4							
Governance, Fraud & Corruption	Transformation: Benefits Realisation	4							

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
Operational	Housing - Asbestos Management	4							
Operational	Building Control	4							
Governance, Fraud & Corruption	Commercial Investments and Income generation strategies	4							
DROPPED									
Governance, Fraud & Corruption	Consultancy Expenditure VFM	2							Replaced by Transformation lessons learned
Governance, Fraud & Corruption	Performance Management	4							Replaced by Whistleblowing Allegation

Audit completed since the September 2019 update: Assignments since the September 2019 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.



Summary of Audit Findings and High Priority Service Findings

The following information provides a brief summary of each audit review finalised since the last Committee update in September 2019 that has received partial assurance. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review. Since the September 2019 update there is one follow up audits that I need to bring to your attention.

ICT

ICT audits provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given.

Information Management – Partial Assurance

The purpose of the review was to ensure that the objectives of the Information Management project are being delivered.

The Information Management project has been in progress for over a year and the first deliverables are now being realised with the development of a retention & disposal schedule. However, this only defines how long the Council should be keeping their data and how it should be stored, there is still a need to determine how the Council will review all data held to ensure compliance with the schedules. The areas within the Information Management Project that are outstanding are:

- To cleanse and migrate network drives – personal and shared
- To provide the information architecture for new corporate file plan and EDRMS

A business case for the next project phase is in development but until the stored data has been cleansed and migrated the Council will remain non-compliant with the Data Protection Act 2018. With the retention and disposal schedules now complete, the Council could commit and challenge service areas to start manually reviewing their files against the schedules which will, at least, start the organisation working towards compliance.

Beyond just the legislative requirements, unmanaged data is limiting the Council’s opportunities to use their data as an asset and will also impact on the knowledge management within the organisation. It was also evident that the Council need to develop a data conscious culture amongst staff. Interviews with staff demonstrated a mixed understanding of the information management project, and even those with awareness of the aims were not always consistent in taking action themselves to manage data under their responsibility.

A high corporate risk has therefore been offered with this audit, this can be reduced should the Council agree a business case with a clear (and not prolonged) target for compliance and ensures there are resources in place to achieve this. Whilst a business case is currently being drafted by a Consultant, there is still a need for the Council to ensure that the business case is in line with their risk appetite, focussing on mitigating the higher risks as a priority above other potential objectives within the project.

Priority 1 Recommendations – Information Management

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Information Management					
1	There are no target timescales in place for achieving compliance with the DPA2018. Development of project beyond the development of the retention and disposal schedules is to be confirmed and approved. Limiting the opportunities for compliance with Data Protection Act 2018.	The Council fails to successfully implement change resulting in continued non-compliance beyond the ICO's current discretion period.	We recommend that, as part of the agreement of the business case, the Head of Performance and Governance ensures a target timescale for compliance is determined and progress is measured against the target timescales.	It has been agreed that a project will start shortly on the implementation of O365 and EDRMs and therefore we will imminently have a timescale.	31 December 2019

Priority 2 Recommendations – Information Management

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Information Management					
1	Staff and Members are not aware of their responsibilities to achieve compliance. A data conscious culture is not embedded within the Council with staff unaware of who has ownership for ensuring data compliance. Awareness of retention and disposal schedules is limited.	A data conscious culture is not embedded, with staff having a desire to retain and hoard documents impacting on delivery of the objectives of the information management project and compliance with legislation.	<p>We recommend that together with training, the Head of Performance and Governance implements initiatives to embed a data conscious culture. Opportunities could include:</p> <ul style="list-style-type: none"> • Providing staff and teams with summaries of their records, including comparison across departments • Increased engagement with a range of staff involved in the delivery of the project • Embedding data management values into the organisational behaviours including in recruitment. • Increase awareness of resources (such as the data retention and disposal schedules) that are already available to support staff, • Embed data management values into recruitment process and induction highlighting to staff on day one the expectations of the Council 	<p>Work is progressing within this area and we are also looking at appointing data champions across the Council to help support the work. We have also identified a service area where they can pilot data management initiatives and act as an advocate for the wider business.</p> <p>We want to ensure that an improved culture is in place prior to the roll-out of new EDMS to ensure that the system is being used appropriately and therefore a number of these actions will continue to be ongoing.</p> <p>We are hoping to start a real push on improving the data management practices with staff from January 2020 and a target timescale has been set in line with this initiative.</p>	31 January 2020
2	There is currently no method to monitor what progress is being made towards compliance despite the efforts made to communicate and inform staff.	The Council is unable to monitor the delivery of project implementation to ascertain whether positive progress is being made and that the project will be delivered within the required timescales – non-delivery will lead to continued non-compliance with legislation and	<p>We recommend that once records (both paper and digital) have been analysed that a reporting method is developed that can demonstrate progress towards compliance across the following:</p> <ul style="list-style-type: none"> • Personal drives • Shared Drives • Sharepoint sites 	The software is currently out for procurement which will help with the monitoring and analysing of all files and this will need to be used periodically. With regards to paper files, we will be starting in December to do sample checking on what is held. From this we will then look at how we can set up the strong room using a file management structure. The target timescales	31 January 2020

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
		potential for financial penalty and reputational damage.	<ul style="list-style-type: none"> Paper files Other 	have been put in place for when we can start monitoring records held.	
3	The process to review existing files against the retention and disposal schedules is in development, however without this process in place there is continued delay in the Council's journey towards compliance.	The Council is unable to scope the work required to achieve compliance resulting in ongoing non-compliance with legislation leading to financial penalty and reputational damage.	We recommend that the Head of Performance and Governance ensures, prior to the development of the next phase of the project, some analysis is undertaken (even on sample basis) to identify the potential number of digital files that will need cleansing. This will support in identifying the scale of the project and the resource required for compliance. The cleansing of data may also achieve a saving on the amount of server space is required.	This action has already been done and a decision has been made to progress the work as part of a wider project on implementation of O365 and EDRMS.	n/a
4			We recommend that the Head of Performance and Governance identifies a protocol for determining where paper files need to be retained (e.g deeds), a process for reviewing all files against this protocol should then be undertaken and those that are not compliant should either be digitized to support future compliance and access to data or destroyed.	Agreed - We need an organisational policy on where we can determine whether a hard copy should be retained which will support staff when they're working on cleansing files as well as providing guidance on how records should be scanned.	30 April 2020

Audit completed since the September 2019 update: Assignments since the September 2019 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Key Control Audits

Key Control Audits are completed as an assessment of the Council's financial control environment. It is essential that all key controls are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control. Financial controls underpin the statement of accounts.

Payroll – Partial Assurance

The annual key control review assesses the effectiveness of the financial controls in relation to the Payroll system. This audit has previously received a partial assurance and whilst improvement has been made there were five priority-3 recommendations made that have led to a Partial assurance being offered.

Weaknesses identified include:

- No clear separation of duties in managing payroll processing for new starters, leavers and changes
- Temporary changes to pay are not approved or reported to Payroll
- New starter process is not consistently followed
- No written procedures for payroll tasks
- Payments were made to an officer who had left the council for three months before being identified.
- Previous audit recommendations were outstanding

Recommendations raised to management have been agreed with target dates for implementation by September 2020.

Audit Assignments completed since the September 2019 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Key Control Audits (Continued)

Banking Arrangements – Partial Assurance

As part of creating the new Council the bank accounts have been brought together and moved into the new Councils name. This has left the new Council with twenty-one bank accounts to monitor. The purpose of this review was to assess the Council banking arrangements and ensure they are adequate to control funds and achieve best value for money.

The banking contract was last tendered in 2012 and extended in 2018 for two years due to transformation. The Council has not yet started the retender exercise. While the extension allowed time to create the new Council, the banking contract still needs to be retendered and no progress has been made on this to date. There has been no pre-tender work done by the council to start assessing if there are better offers out there and to allow for an OJEU compliant procurement process to be completed.

Priority 2 Recommendations – Banking Arrangements

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Banking Arrangements					
1	The banking contract was last tendered in 2012 and extended in 2018 for two years due to transformation. The Council has not yet started the retender exercise.	Inaccurate, out of date information can lead to bad decisions being made. This could result in financial and reputational repercussions for the council.	We recommend that the Case Manager Procurement starts the procurement process for a new banking contract.	Agreed	31 July 2020