



# Somerset County Council

## Annual Report and Opinion 2018-19

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Unrestricted

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**The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.**

## 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.
  - 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; and
- 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.

**The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.**

## Scope

The Internal Audit service for Somerset County 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. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee (see Appendix 2). This report summarises the activity of the Internal Audit Team for the 2018/19 year against the Internal Audit Plan (approved by the Audit Committee, 29<sup>th</sup> March 2018).

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



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

March 2019

**The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.**

## Annual Opinion

This Annual Report gives the opinion of the Head of Internal Audit on the adequacy and effectiveness of internal control, governance and risk management within Somerset County Council. Our opinion is derived from the completion of the risk based internal audit plan at **Appendix 2**, and as such it is one source of assurance on the adequacy of the internal control environment.

Senior Management and Members are ultimately responsible for ensuring an effective system of internal control. The purpose of internal control is to manage risk rather than eliminate it. Getting the balance of internal control right is essential for organisational success. Under control could expose the organisation to unacceptable risk and destroy value, as over control takes valuable resources and can create inefficiency. Therefore, the internal control environment needs the right balance to help Somerset County Council to deliver its services with decreasing resources.

Healthy Organisation has been a major piece of work this year and reviewed the corporate control framework with an overall rating provided of Medium. We have seen evidence of progress being made across themes since the first Healthy Organisation review was carried out in 2016/17, although with SCC's top priority during 2018/19 being the delivery of the Financial Imperative Programme (FIP), this has slowed progress in some areas. The 'areas for attention' have been agreed with management and the Healthy Organisation dashboard in place means that progress will continue to be monitored.

In terms of Financial Management, the Healthy Organisation amber rating recognises both the effort that has been applied to address SCC's financial difficulties but also the longer term challenge that remains in terms of securing longer term financial sustainability. Action taken to date has included rebasing the 2018/19 budget, introduction of the Financial Imperative Programme and improved budget monitoring. We have also carried out a more detailed review of the Delivery of MTFP savings through the FIP programme and the improvements that have been put in place have resulted in a reasonable opinion. Significant improvements in accountability were reported as well as close monitoring and scrutiny at a senior level. A more consistent approach was seen across SCC supported by regular, detailed reporting. In addition, savings at risk of being delayed are flagged early, allowing the service to take remedial action with a requirement for the service to replace any agreed savings which cannot be delivered. This has greatly reduced the likelihood of saving targets not being met.

**Annual Opinion Continued**

## Annual Opinion Continued

In relation to the 2018/19 internal audit plan a total of 53 reviews have been delivered. In agreement with management, and previously reported to this Committee, some changes have been agreed in the year as the need to respond to new and emerging risks was identified.

It is also worth noting that nine advisory audits were completed during 2018/19 and these represented the main changes to the plan in the year. Given the level of change within the Authority, Internal Audit has a role to play in being the 'Trusted Advisor'. These reviews included investigative work, as well as advisory work to review controls that are new or changing. It is positive that requests for such reviews continued throughout the year, reflecting an organisation that is keen to involve internal audit to help address potential areas of risk and this is seen as a positive commitment to improving governance arrangements. Where such advisory work has identified weaknesses in controls these are picked up in future plans, and an opinion based review carried out.

All reviews have been completed to report stage, 48 of which have been finalised. Of these, 20 have opinions with 13 (62%) having received Reasonable Assurance and the remaining given partial assurance. This is a real improvement on 2017/18 where the proportion of reasonable assurance reports was 37%. The focus of the internal audit plan is on high risk areas and therefore this reduction is really encouraging, particularly given the greatest focus of the Council during the year has been on addressing the shortfall in financial resources. I continue to be encouraged by the management responses received and the readiness to accept and address the matters raised in audit reports.

To support our risk based approach, scrutiny of partial opinion reports and effective follow-up arrangements are needed. In this regard I am assured by the continued challenge and support from the Audit Committee particularly during the 'call in' meetings where service managers are questioned on progress against their action plans, providing greater scrutiny in this important area.

In addition, for all partial opinion audits a follow-up process is in place as outlined on page 11. In 2018/19, 18 follow-up audits were undertaken and for 11 of these the risks have been judged to have been reduced sufficiently to be removed from the risk management system. Overall the follow-up process demonstrates that action is being taken to address risks reported, but there are audits that have been followed up more than once with findings still not fully implemented. It is accepted that there are reasons to explain why recommendations are taking longer to implement, such as new systems implementation and needing longer for new policies to become embedded in operations. To ensure that risks are being reduced in a timely basis, in 2019/20 SCC proposes to increase scrutiny on those audits where implementation of recommendations has been delayed.

One corporate risk has been reported during the year in respect children's contract management (refer to page 5). Our

review reported that a robust approach towards contract management of children’s placements has not been in place and this represents a significant cost pressure for SCC. Improvement in this area has been recognised as a necessity by the Children’s service and has started to be addressed with the help of the procurement service.

To summarise, I believe that overall the Senior Management of Somerset County Council cooperate with the audit process, with our audit findings and recommendations agreed. The Council is also open about risks they are facing which enables us to produce a plan that is risk based and enables us to focus on the high risks of the council. The Healthy Organisation review gave medium assurance and overall progress was seen. Financial sustainability has been the biggest risk faced by the Council and our review of the delivery of MTFP savings showed significant improvement and was given a reasonable opinion. The number of partial opinion reports in percentage terms has reduced from 63% to 38% this year. In terms of follow-up although the risks associated with the majority had reduced sufficiently, delays in implementation of recommendations is a concern and will need more attention during 2019/20.

Based on the above, I have considered the balance of audit work, the assurance levels provided and outcomes together with the response from Senior Management and the Audit Committee and offer ‘Reasonable Assurance’ in respect of the internal control framework in place.

## High Corporate Risks

Risks that we consider need to be brought to the attention of both

## High Corporate Risk

For those audits which have reached final report stage through the year, we have assessed the following risks as ‘High’.

senior management and the Audit Committee.

**Audit:**

**Children's Contract Management (2017/18 review completed in 2018/19)**

Objective:

To confirm that contracted services are delivered in accordance with the terms and conditions of the contract and desired outcomes achieved.

Risk:

Contract spend exceeds set budgets.

**Partial Assurance Audits**

**Risks that we consider need to be brought to the attention of both**

**Partial Assurance Summary**

The following audits received a Partial assurance opinion in respect of their control environments in 2018/19.

**senior management and the Audit Committee**

<b>Audit Name</b>	<b>Key Issues</b>
Children Contract Management (2017/18)	Responsibility for ensuring contracted outcomes are delivered not clear, with no framework for the annual review of contracts.
Corporate - Lone Working	No corporate system for monitoring lone working.
Corporate - Role of the Somerset Manager	No Management Leadership Training Framework.
Corporate - Debt Management	Lack of compliance with revised income code of practice.
Premises Health and Safety – non school establishments.	Incomplete documentary evidence held in relation to statutory inspections. Risk Assessments not complete and up to date. Responsibilities unclear in relation to shared premises.
Corporate Property Maintenance – Schools	Weaknesses in recording and monitoring completion of annual condition surveys. Incomplete return of annual health and safety returns.
Children - Team Around the School	Lack of evidence of evaluation of intervention and consent to share personal information
Adults Placements – Financial Controls	Lack of evidenced methodology for validation ahead of payment. Delay in completion of financial agreements. Lack of audit trail in AIS.

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

**Summary of Control Assurance Opinions**

Completed  
ation

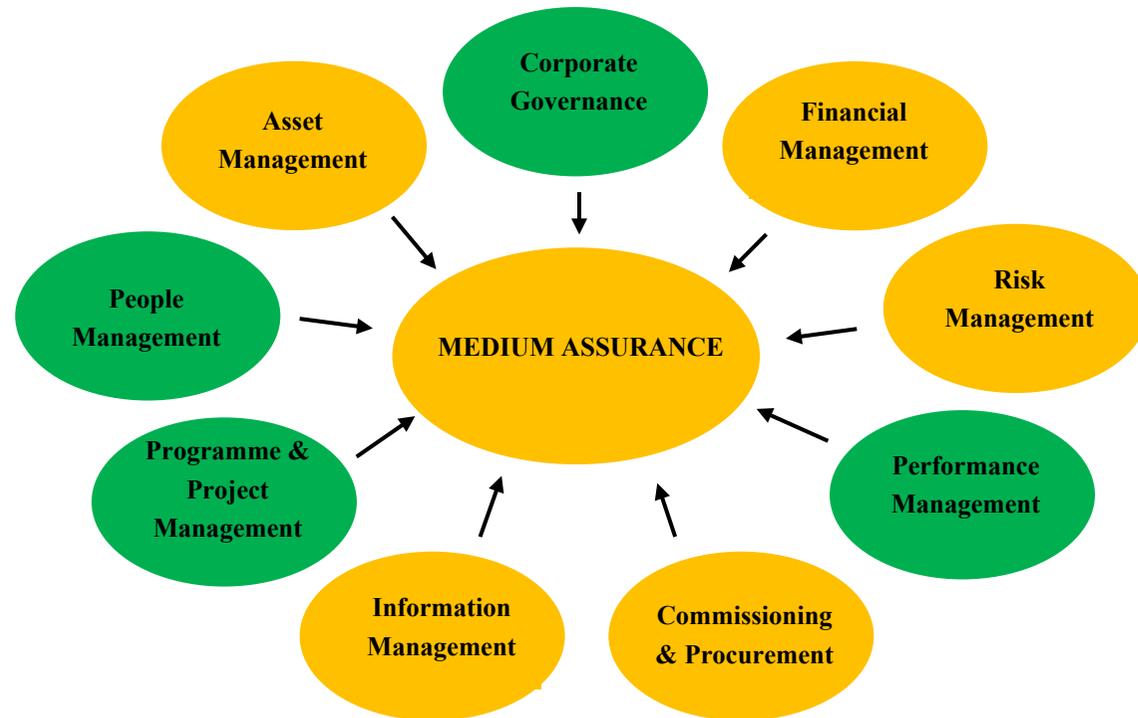
**Control Assurance by Category**  
(2018/19 work finalised in year)

Substantial  
0%

62% of audits results in a Substantial or Reasonable assurance opinion (2017/18: 37%).

### Summary of Healthy Organisation Outcomes

The assurance for each of the nine Healthy Organisation themes is depicted in the following chart.



Overall a **Medium Assurance** opinion was given.

Healthy Organisation

Review of key corporate areas

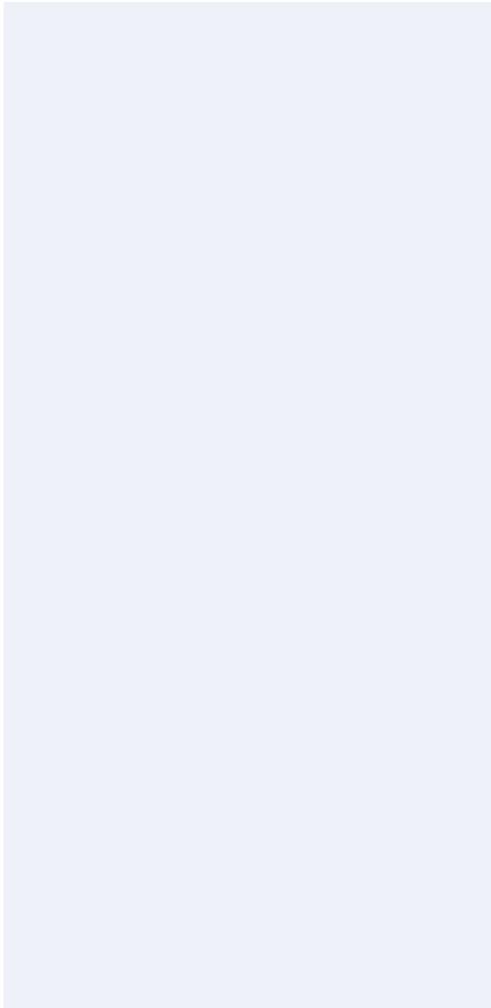
We have seen evidence of progress being made across themes since the first Healthy Organisation review was carried out in 2016/17, particularly in relation to Performance Management and People Management. SCC's top priority during 2018/19 has needed to be delivery of the Financial Imperative Programme (FIP) and this has slowed progress in some areas.

In terms of Financial Management the amber rating recognises both the effort that has been applied in relation to introduction of the FIP programme, rebasing the budget and improved budget monitoring but also the longer term challenge that remains in terms of financial sustainability.

The 'areas for attention' have been agreed with management and the Healthy Organisation dashboard in place means that progress will continue to be monitored. In addition, to provide assurance that improvements have been put in place, all areas for attention have been included in the 2019/20 internal audit plan; either as a separate audit or as part of a Healthy Organisation follow-up review planned for Autumn 2019.

**Healthy Organisation continued**

**Review of key corporate areas**



## Follow-up Work

The process to assess implementation of recommendations



## Follow-up Work

All partial opinion reports are subject to a follow-up review to assess progress made in implementing recommendations. All significant findings from these audits are recorded on the corporate risk management system, JCAD, to allow progress to be recorded and monitored, this includes regular review by the Audit Committee. A follow-up audit takes place to confirm that actions have been implemented as agreed and where there is sufficient evidence of this, the audit is removed from JCAD.

A summary of the outcomes of our follow-up work is shown below. For detail of the follow-up audits refer to Appendix 2.

Follow-up Outcomes	Total
Removed from JCAD	11*
Remaining on JCAD	7
<b>Total</b>	<b>18</b>

In relation to the audits that remain on JCAD further follow-up work will be performed in 2019/20.

\* This include s106 review where a full audit was needed as a new IT system had been introduced.

## Value Added

**'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.'**

## Adding Value

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

During the year we have responded to requests to assist with specific pieces of work. During the year, we have:

- Investigated a Whistleblowing allegation
- Performed an advisory review involving a residential care placement
- Performed an advisory review involving a children's direct payment
- Carried out a review of financial procedures at a school where concerns had been raised
- Provided advice to ICT teams covering a variety of issues including WAN connections, Bring your own devices and windows related advice
- Participated in the annual Schools Financial Standard Moderation exercise
- Attendance at working groups as required (e.g. core contract group).
- Provided Benchmarking reports with data collected across SWAP (Blue badges)
- Surveyed all SCC staff as part of lone working audit
- Carried out training analysis across management grades
- Provided comment and improvement suggestions on the Risk Strategy.
- Circulated Fraud alerts that we become aware of through professional networks.

## Internal audit Performance

## Internal Audit Team Performance

SWAP's performance is subject to regular monitoring and review by both the Board and the Member Meetings. The respective outturn performance results for Somerset County Council for the 2018/19 year are as follows;

Performance Target	Performance
<b><u>Audit Plan – Percentage Progress</u></b>	
Final, Draft and Discussion	98%
In progress/ Review	2%
Yet to start	0%
Customer Satisfaction Questionnaire	96%

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice Framework 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). Both standards require an Internal and External Assessments (Standard 1300) of the Internal Audit function.

The standards require an External Assessment to be carried out at least every five years. SWAP was found to be in conformance with the International Professional Practices Framework and the Public Sector Internal Auditing Standards (PSIAS). As a result of the External Assessment, a Quality Assessment Improvement Plan (QAIP) is produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

And finally, just like any other company and Somerset County Council itself, our accounts are subject to both Internal and External Audit Review. The auditor confirmed that the audit did not find any areas of concern and the auditor was confident that the processes in place are adequate to support SWAP's annual

report and financial statements.

## Internal Audit Definitions

## Appendix 1

### Control Assurance Definitions

<b>None</b>	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.
<b>Partial</b>	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.
<b>Reasonable</b>	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.
<b>Substantial</b>	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.

### Definition of Corporate Risks

Risk	Reporting Implications
<b>High</b>	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
<b>Medium</b>	Issues which should be addressed by management in their areas of responsibility.
<b>Low</b>	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:

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

The schedule below contains a list of audits agreed for inclusion in the Annual Audit Plan 2018/19 and the final outturn for the financial year. Audits completed that were not in the original plan reported to the Audit Committee are indicated with an \*

Service	Audit Type	Audit Name	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor Recommendation			Comments
						1	2	3	
						<b>Opinion Based Audits</b>			
Governance	Governance	Healthy Organisation	Final	Medium Assurance					
Governance	Governance	Ethical Governance	Final	Reasonable	5			5	
Finance	Key Control	STAR Payroll	Final	Reasonable	4		1	3	New
Finance	Key Control	Creditors	Final	Reasonable	4		1	3	
ECI	Operational	Section 106 Agreements	Final	Reasonable	6		4	2	Sufficient progress made to remove from JCAD
Schools	School Theme	School Theme – Premises Health and Safety	Final	Reasonable	7		1	6	
Schools	School Theme	School Theme – Schools Financial Value Standard (SFVS)	Final	Reasonable	17		2	15	
Schools	School Theme	School Theme – Safer Recruitment	Final	Reasonable	3			3	
Schools	School Theme	School Theme – Sports and PE Grants	Final	Reasonable	4			4	
Adult Services	Operational	Client Finances	Final	Reasonable	2			2	
Governance	Governance	MTFP – the new Approach	Final	Reasonable	6		1	5	

Service	Audit Type	Audit Name	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor			Comments
						Recommendation			
						1	2	3	
ECI	Operational	Delivery of Major Transport Projects	Final	Reasonable	7		1	6	
Children's Services	Operational	Children's – Special Guardianship Allowances	Final	Reasonable	9		2	7	
Adult Services	Operational	Adults Placements - Finance & Operational Controls	Final	Partial: Financial Reasonable: Operational	11		3	8	
Education	Operational	Team Around the School	Final	Partial	6		2	4	
Governance	Governance	Lone Working	Final	Partial	11		6	5	New
Property Services	Operational	Non schools establishments – Premises Health and Safety	Final	Partial	8	2	4	2	
Property Services	Governance	Corporate Property Maintenance – Schools	Final	Partial	7	2	2	3	
Human Resources	Governance	Role of the Somerset Manager	Final	Partial	2	1		1	
Finance	Key Control	Debt Management	Final	Partial	7		5	2	
Governance	Governance	Risk Management	Draft						
Property Services	Governance	Corporate Management of Health and Safety	Discussion Document						
Adults	Operational	Discovery Contract Management	Discussion document						
Adult Services	Operational	Management of Blue Badges	Discussion Document						

Service	Audit Type	Audit Name	Status	Comments
<b>Follow Ups</b>				
ICT	Follow-up	RIPA Use of Internet as a means of Surveillance	Final	Sufficient progress made to remove from JCAD
ICT	Follow-up	Readiness for General Data Protection Regulations (GDPR)	Final	Sufficient progress made to remove from JCAD
ICT	Follow-up	IT – Information Sharing	Final	Sufficient progress made to remove from JCAD
ICT	Follow-up	Network Resilience	Final	Removed from JCAD, Business Continuity identified as a risk area for 19/20 Plan.
Finance	Follow-up	Payroll IR35	Final	Sufficient progress made to remove from JCAD
Procurement	Follow-up	Corporate Contract Management	Final	Removed from JCAD, contract Toolkit now largely established
Adults	Follow-up	Adults – New Operating Model	Final	Sufficient progress made to remove from JCAD
Adults	Follow-up	Risk of Care Provider Failure	Final	Sufficient progress made to remove from JCAD
Children's Services	Follow-up	Use of Part-time Timetables	Final	Sufficient progress made to remove from JCAD
ECI	Follow-up	Concessionary Fares	Final	Sufficient progress made to remove from JCAD
ICT	Follow-up	Payment Card Industry (PCI)	Final	Some progress made but full compliance with PCIDSS yet to be achieved – to remain on JCAD.
Property Services	Follow-up	Strategic Asset Management	Final	Insufficient progress made to be removed from JCAD.
Children's	Follow-up	Independent Placements for CLA and Education – Financial Controls	Final	Insufficient progress made to be removed from JCAD.
Children's - SSE	Follow-up	Dillington House Financial Controls	Final	Insufficient progress made to be removed from JCAD.
Children's Services	Follow-up	Children's Direct Payments	Final	Insufficient progress made to be removed from JCAD.
Adult Services	Follow-up	Better Care Fund Follow-up	Final	Insufficient progress made to be removed from JCAD.

Children's Services	Follow-up	The Education of Children Looked After	Final	Insufficient progress made to be removed from JCAD.
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Service	Audit Type	Audit Name	Status	Comments
<b>Grant Certification Work Completed</b>				
Children's Services	Key Control	Troubled Families - Phase 2 Claims	Final	Certification of claims completed through the year
ECI	Operational	Broadband Delivery UK audit certification	In progress	New

Service	Audit Type	Audit Name	Status	Comments
<b>Advisory Work Completed</b>				
Finance	Governance	Combating Tax Evasion	Final	
Governance	Governance	Whistleblowing Allegation	Final	New
ICT	ICT	WAN Connections	Final	
ICT	ICT	Bring Your Own Devices	Final	New
ICT	ICT	E5, MS Windows Defender, ATP, Security Suite Deployment	Final	
Adult Services	Advisory	Adults Residential Home Payments Advisory Review	Final	New
Children's Services	Operational	Children's Direct Payments advisory review	Final	New
Schools	Schools	Schools Financial Value Standard Moderation	Final	
Schools	Schools	School Financial Accounting Review	Final	New

Service	Audit Type	Audit Name	Status	Comments
<b>Audits Deferred/Removed from the Plan during the year</b>				
ICT	Follow-up	SAP – Key controls	Deferred	Deferred to 2019/20 to be completed alongside active directory follow-up.
ICT	Follow-up	Data Subject Access Request (DSAR)	Deferred	More officer time needed to complete audit recommendations. Days transferred to Q2 Tax Evasion.
Finance	Key Control	Cash Handling	Deferred	Issue of Policy delayed. Days used for BDUK audit certification.
Human Resources	Governance	Workforce Planning	Deferred	Removed to allow Lone Working audit to be carried out.
Procurement	Governance	Corporate Contract Review	Deferred	Contract days to focus on Discovery Contract review.
Adult Services	Follow-up	Mental Health – Care Plans	Deferred	Insufficient progress made to start – will revisit in 2019/20
ICT	ICT	Back Ups – Azure	Removed	Move to Azure not complete.
ICT	ICT	Asset Management – Telephony	Removed	Following some initial work full review not completed as arrangements not sufficiently embedded.
ICT	ICT	Procurement	Removed	Service assessed risk to be reduced. Days added to Q2 risk management.
ICT	ICT	BRM Infolink Azure	Removed	Replaced with Q1 Bring Your Own Devices.
Finance and Performance	Governance	Performance Management	Removed	Covered within Healthy Organisation review in Q2. Days used for MTFP as scope extended beyond follow-up.
Procurement	Follow-up	Procurement – The Monitoring and Control of Savings Made	Removed	Will form part of Q4 MTFP review.
Procurement	Governance	Procurement - Category Management	Removed	Covered within Healthy Organisation review in Q2. Days used for STAR payroll.

Service	Audit Type	Audit Name	Status	Comments
Human Resources	Governance	People Strategy	Removed	Covered within Healthy Organisation in Q2. Days used for Adults Residential Payments advisory review
Adult Services	Operational	Learning Disabilities – Review to Improve Lives	Removed	Project ended – days used for Direct Payments Advisory review.