

Somerset Council

Report of Internal Audit – Financial Focus

December 2023

Introduction

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Introduction

Following the extreme financial pressure that Somerset Council is facing in year and the budget shortfall for 2024-25, it has become imperative that internal audit resources are directed to work that provides additional assurance and support in this area. This report highlights the priority areas for Internal Audit work as aligned with the key requirements identified in CIPFA's Financial Management Code around factors supporting financial resilience. This work is also aligned to the two strategic risks around financial management, namely ORG0057 and ORG0070.

SWAP's Internal Audit Plan approach

Our approach to Internal Audit planning is a continuous risk assessment and rolling plan approach with the aim of providing a constant 9-to-12-month rolling view of audit work. We build our plan in conjunction with management as the year progresses. The resulting programme will be a combination of requested audit work aligned to service priorities, combined with audit work recommended by SWAP, driven by our continuous risk assessment. Given the maturity of the current organisation there are several key governance areas that will need to be assessed to ensure key fundamentals of a healthy organisation are in place and operating effectively from a governance point of view.

Internal audit work should be closely aligned to the risks the organisation is facing and where there is confidence in the organisations risk management framework, reliance can be taken from the council's strategic and directorate risk registers. Overlaid onto this assessment is SWAP's sector-wide top 10 risk areas for coverage, as well as consideration of the eight strands of our 'Healthy Organisation' framework.

The results of our risk assessment is shared with Senior Management in Directorates to obtain their view on internal audit involvement. In developing risk assessments, we will also take account of other sources of assurance, where relevant. As the year progresses, we will update the Committee through our usual quarterly update report on Internal Audit activity. It will be through this process the Audit Committee members will be able to assess whether the audit work building throughout the year provides sufficient and appropriate coverage of key risks.

Corporate Risk Coverage November 2023

It's important for the Audit Committee to understand where there is no independent internal audit coverage against key risk areas and to seek, where necessary, other assurance from first or second line.

Three lines Model

Corporate Risk Coverage November 2023

The table below highlights coverage of our internal audit work from the 1st April 2023 to November 2023 against current corporate risks. Due to the complexity and scope of some of the corporate risks, the volume of audit work to help shape a 'good' degree of coverage can vary. We usually monitor coverage over a 2-year period, however as Somerset Council was only formed on the 1st April 2023 with new corporate risks, we have only taken coverage from that date.

Whilst all strategic risks are important, given the financial challenges the authority is facing, and the imminent threat of a section 114 notice our intention is to identify and divert internal audit resources where appropriate to provide assurance around the two main financial strategic risks – ORG0057 and ORG0070. Our current rolling plan includes work across all risks, with the exception of ORG0065 and ORG0066.

Strategic Risk	Coverage
SC ORG0009 - Safeguarding Children	Some
SC ORG0053 - Organisational Resilience	In Progress
SC ORG0056 - Supply Chain	None
SC ORG0057 - Financial stability / Sustainable MTFP	Some
SC ORG0060 - Failure of ASC to meet statutory obligations	Some
SC ORG0061 - Climate Change	Some
SC ORG0062 - Health and safety management, strategic planning and direction is not embedded across the Council	In Progress
SC ORG0063 - Commercial Investments	In Progress
SC ORG0064 - General Housing: Failure to maintain delivery of affordable housing	Some
SC ORG0065 - Inability recruiting and retaining staff	None
SC ORG0066 - Financial instability within the VCFSE sector	None
SC ORG0068 - Increase in fraudulent activity	Some
SC ORG0070 - Budget overspend in the current year	Some
SC ORG0071 - Adults Social Care Transformation programme does not achieve its financial targets	None
SC ORG0075 - LCN - Failure to deliver the key commitment of the business case	None

Coverage Key

Coverage	Description
Good	Good audit coverage completed
Adequate	Adequate audit coverage completed
Some	Some aspects of audit coverage completed
In Progress	Some aspects of audit coverage in progress
None	No audit coverage to date

Financial Assurance Priority Work

To help provide an overview structure to our financial assurance work we have aligned it to the key factors identified in CIPFA's Financial Management Code that support financial resilience.

Priority Work to Support Financial Challenges

CIPFA Financial Management Code 2019

The purpose of the CIPFA Financial Management Code is to establish the principles that should be in operation in any local authority to ensure the basic level of financial governance is in place. An overview of the Financial Management Code key standards can be seen in **Appendix A**. The Financial Management Code also highlights the way an authority can exhibit financial stress. This is summarised in **Appendix B**.

For our purpose, the Financial Management Code highlights a number of factors that drive the ability of an authority to withstand financial pressure. These factors are considered helpful as part of any financial resilience assessment. Our intention is to align certain aspects of our audit work against these resilience areas to build a picture of how resilient the authority is and will be going forward. Key resilience factors include:

- Getting routine financial management right.
- Planning and managing capital well.
- Using performance information effectively.
- Having clear plans for delivering of savings.
- Managing reserves well.

Whilst not all areas listed above will be subject to internal audit work during 2023-24, they will remain on our radar for the 2024-25 audit plan and future consideration. As with several key governance areas, due to the immature nature of Somerset Council and ongoing development of the structure, key processes and systems are subject to on-going change and impacting the timing of some audit work.

The table below summarises the individual audits that we plan to undertake against these resilience factors to help shape a view of the organisation.

Financial Assurance Priority Work

Summary of Planned Audits 2023-24 against Financial Management Code Financial Resilience Factors

Financial Management Code Area / Name of Audit	In Audit Plan	Indicative timing	Strategic Risk Link		
			ORG57	ORG68	ORG70
Getting routine financial management right					
Financial Control - Budget Monitoring & Reporting	2023-24	In Progress	✓	✓	✓
New: Financial Control – Budget Planning/Assumptions	2023-24	In Progress	✓	✓	✓
MSD (Financial Management System IT Controls)	2023-24	In Progress	✓	✓	✓
Debtors	2023-24	Waiting to Go Live		✓	✓
Creditors	2023-24	Waiting to Go Live		✓	✓
Main Accounting	2023-24	Waiting to Go Live		✓	✓
MTFP Process	Placeholder	-	✓		
Council Tax/NDR	2024-25	Future Proposed		✓	
Financial Literacy Across the Organisation	Placeholder	-	✓		✓
Scheme of Delegation	Placeholder	-	✓	✓	✓
Planning and managing capital well.					
Capital Programme	Placeholder	-			✓
Commercialisation Programme	2023-24	In Progress		✓	✓
Asset Management	TBC	Future Proposed			✓
Using performance information effectively.					
Performance Management, incl benchmarking	2024-25	Future Proposed	Cross cutting/impact on numerous risks		
Having clear plans for delivering of savings.					
Benefit Realisation Framework (Cash and Non-Cash Delivery)	2023-24	Complete	✓		✓
New: Corporate and Service Planning	2024-25	Future Proposed	✓		
New: Transformation Programme (Delivery of Savings)	2024-25	Future Proposed	✓		✓
New: Adults Transformation	2024-25	Future Proposed	✓		
Managing reserves well.					
Use and Management of Reserves	Placeholder	-	✓	✓	

Note: Audits listed with 'Placeholder' are within the audit universe but not currently scheduled to be undertaken. Please refer to the detailed scoping document circulated to Audit Committee members prior to this meeting for further scope detail. TBC – agreement this should be undertaken, although exact timing not confirmed.

Financial Assurance Priority Work

In addition to work around CIPFA's key financial resilience factors, we are also undertaking targeted work.

Other Financial Assurance Audit Work

Whilst a number of reviews are scheduled to support work around core financial resilience factors, there are other assurance pieces of work currently being undertaken to provide assurance around ORG0057 and ORG0070. These include the following:

Audit Name	Scope
Financial System Controls Assessment	To identify which controls are or are not operating effectively across all the key financial system areas. The assessment was based on individual manager's responses.
CLA Placements Contract and Procurement	The audit scope covers: Processes for sourcing CLA and care leaver placements, including tendering and selection arrangements; Invoice payment processes; budget monitoring processes; Reporting and oversight by senior management.
Children's Invoicing CLA and SEND	Targeted work to complete data analysis of invoice and LCS System data for the purpose of identifying duplicate invoices and charges for expired care packages.
School Balances (DSG, Deficit Recovery)	High-level review supporting the analysis of schools financial spend and agreeing actions for tracking from resulting support workshops.

Financial Assurance Priority Work

Key financial system controls underpin the integrity of financial transactions within the Authority.

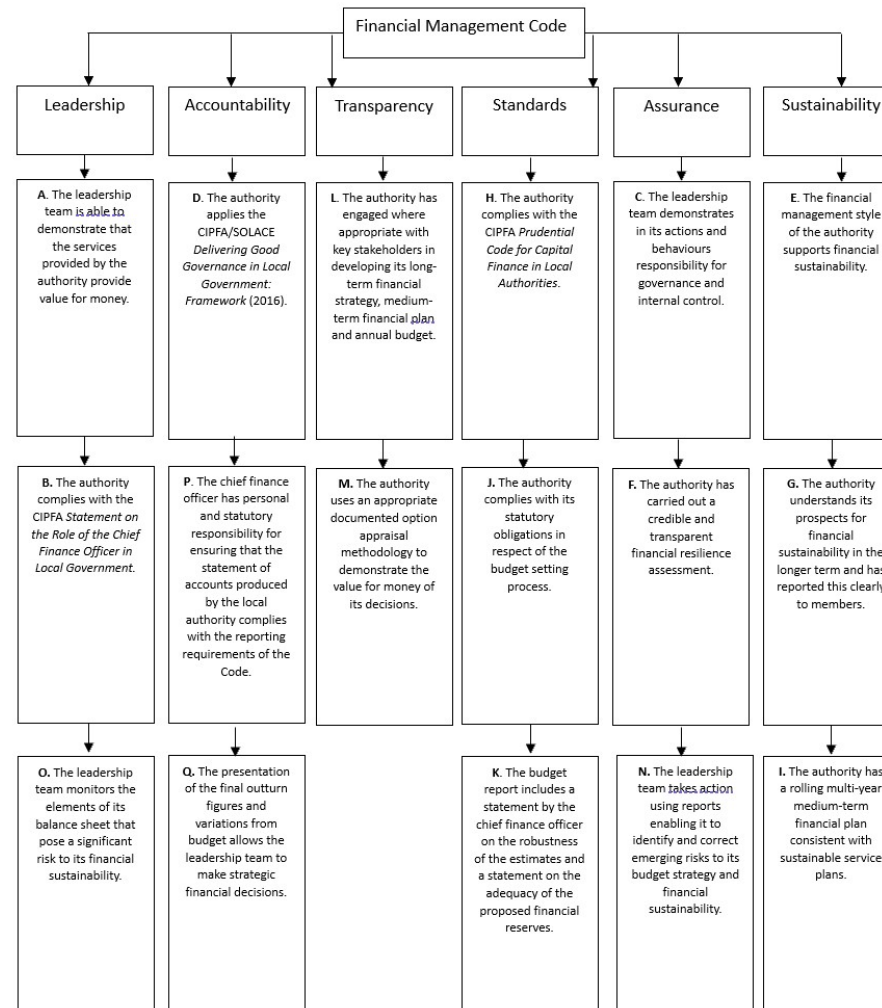
Financial Systems Controls Summary

As highlighted in September Audit Committee, we added an additional piece of work to collate a view on the operation of key financial system controls. This piece of work involved liaising with Service Managers to review the operating of key financial system controls and to understand what has or has not been working effectively since 1 April 2023. Our initial assessment for the end of October showed 64% of controls operating effectively and 23% partially in place. With a number of recent developments this has now increased to 78% fully operating and 17 partially in place. Below is a summary across key systems reviewed:

	Number of controls reviewed	Number in place and believed to be operating effectively	Number partially in place	Number not in place	Control outside of management responsibility
Microsoft Dynamics					
Main Accounting	8	38%	50%	13%	0%
Accounts Payable	13	100%	0%	0%	0%
Accounts Receivable	10	63%	38%	0%	0%
Other					
Payroll & Expenses	14	100%	0%	0%	0%
Treasury	14	100%	0%	0%	0%
Revs and Benefits (cumulative)					
Ctax Support and Housing Benefit	46	89%	11%	0%	0%
Ctax and NDR Revenues	57	60%	25%	2%	14%
Total	162	76.5%	16.0%	1.2%	4.9%
Average score per system		78%	18%	2%	2%

Members of the Audit Committee have received an additional document detailing the control summary.

Strong financial management and governance is imperative for local government to survive in the current economic climate. CIPFA's Financial Management Code provides a set of standards that every Local Authority should be operating to so that it is best placed to deal with the level of financial uncertainty against increasing demands for its services against income and future financial shocks.



The authority can exhibit financial stress in a number of ways. Some of the more common symptoms are as follows:

- **Running down reserves** – Using the authority’s financial reserves to finance a deficit or to avoid difficult decisions around spending cuts provides temporary relief, but is not sustainable in the long term.
- **Failure to address financial pressures** – Refusing to make difficult decisions about how to reconcile funding and service pressures, or not recognising that such decisions need to be made, is equally not a solution to challenges but instead simply increases the financial gap and the extent of change that will be required in future years.
- **Shortened planning horizons** – Long-term planning is more difficult in times of uncertainty, but it is still important, perhaps even more so than in more stable circumstances. A failure to plan is indicative of a lack of strategic thinking and an unwillingness to make difficult decisions.
- **Lack of investment in infrastructure resources** – When resources are scarce, it is tempting to defer the maintenance and enhancement of assets (such as buildings) to future periods, which can result in the failure of key physical resources.
- **Gaps in savings plans** – Knowing that savings are required is helpful, but knowing how these savings are going to be achieved is critical. Simply indicating that ‘unidentified savings’ will be made is not an acceptable strategy for financial resilience.
- **Unplanned overspends** – No budget is going to be absolutely spot-on. However, overspending against the budget is simply rolling over this year’s problems into next year. It is a clear sign that the authority is failing to turn its financial policy decisions into action on the ground.