



Somerset County Council

Annual Report and Opinion 2019-20

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, 28th March 2019).

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*

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

Annual Opinion

I have considered the balance of audit work in 2019/20 and the assurance levels provided, together with the response from Senior Management and offer '**Reasonable Assurance**' in respect of the areas reviewed during the year.

Internal Audit has not reviewed all risks and assurances relating to Somerset County Council and cannot provide absolute assurance on the internal control environment. Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control. 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. Audit Coverage is considered adequate, however, to be able to provide an overall opinion.

The Annual Opinion is made based on the following sources of information:

- Completed audits (Final & Draft - during the year 2019/20) 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.
- Significant/material risk where management has not accepted the need for mitigating action.
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.
- Assurances from other providers, including third parties, regulator reports etc.

Opinions are a balanced reflection not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Over the year, the Internal Audit Team have found Senior Management of Somerset County Council to be generally supportive of Internal Audit findings and responsive to the recommendations made. In addition, there is a good relationship with Management whereby they feel they can approach the Internal Audit Team where they perceive to be potential problems.

Annual Opinion Continued

Generally, the follow up work confirms the implementation of agreed recommendations to mitigate exposure to areas of significant risk. Follow-up arrangements are also supported by the 'call in' meetings where service managers are questioned on progress against their action plans, providing greater scrutiny and challenge. In 2019/20, twelve follow-up audits were undertaken, nine of which have been finalised. For eight of these the risks have been judged to have been reduced sufficiently to be removed from the risk management system.

A Healthy Organisation follow-up review was completed in the year. There was evidence of a clear effort to address the areas for attention highlighted in 2018/19. Most actions have either been completed or are in progress (see page 10 for breakdown). Future financial sustainability remains a high risk for SCC, it is encouraging that seven of the eight areas of improvement relating to financial management were found to be at least in progress. Assisted by the FIP programme there was a significant improvement in the council's short-term financial prospects and General Fund Reserves increased.

In relation to the 2019/20 internal audit plan a total of 50 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. The 'new' audits and those deferred/removed from the Plan can be identified in [Appendix 2](#).

45 of the audits are either at final or draft report stage. Of these, 28 have opinions with one substantial (4%), 14 (50%) reasonable and the remaining given partial assurance. Last year's substantial/reasonable percentage was 62% an improvement on 2017/18 where the proportion was 37%. The focus of the internal audit plan is on high risk areas and therefore this reduction is really encouraging, particularly given the continued focus of the Council during the year has been on addressing the shortfall in financial resources.

There are no specific concerns in relation to fraud risk at this time and there have been no significant fraud investigations during the year.

COVID 19 disrupted the delivery of the 2019-20 Internal Audit Plan in the final few weeks of the financial year. As a result delivery of a small proportion of audits slowed and reductions to scope agreed. I do not consider this impact significant to our work when forming the 2019-20 Annual Internal Audit Opinion.

High Corporate Risks

Risks that we consider need to be brought to the attention of both senior management and the Audit Committee.

High Corporate Risk

For those audits which have reached final report stage through the year, a number of audits have been assessed as being a medium corporate risk but none were assessed during the year as 'High'.

Partial Assurance Audits

Risks that we consider need to be brought to the attention of both senior management and the Audit Committee

Partial Assurance Summary

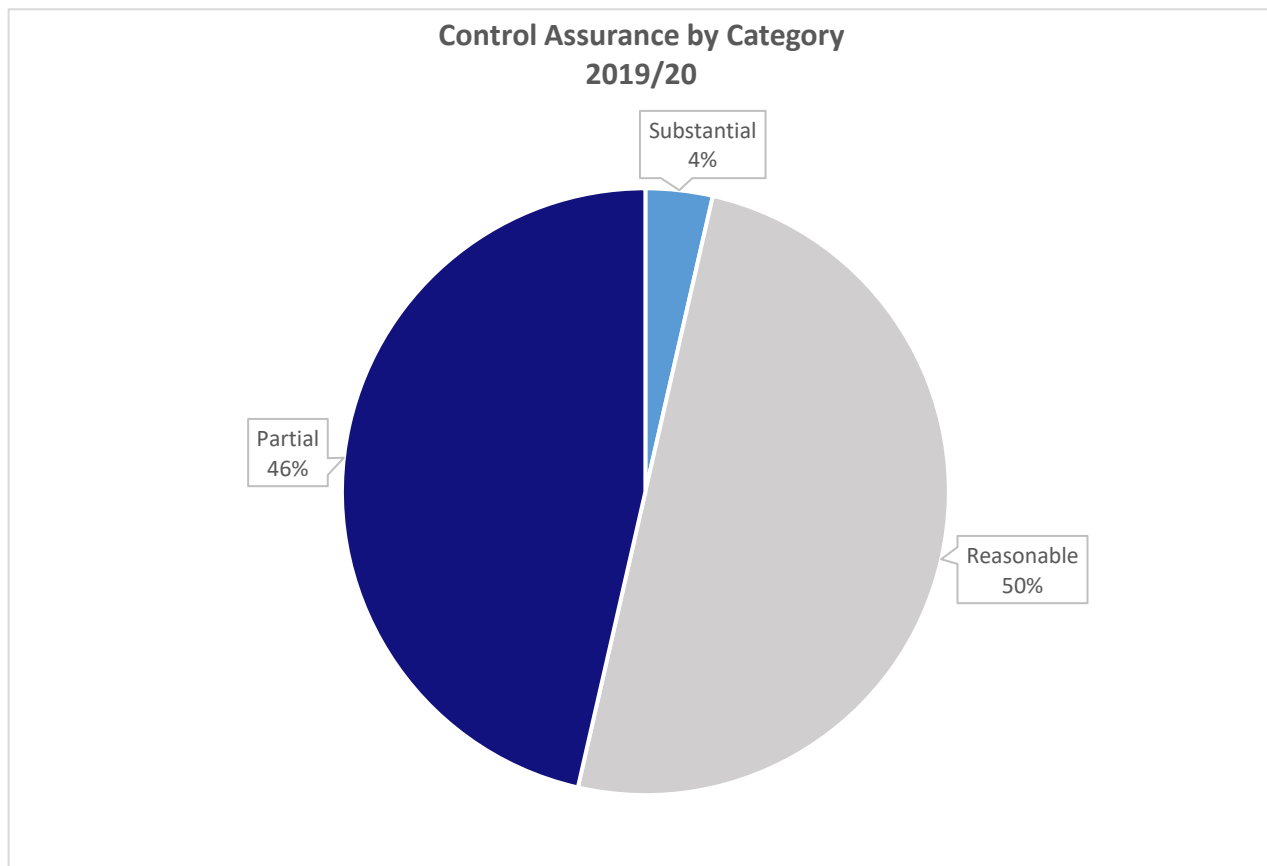
The following audits received a Partial assurance opinion in respect of their control environments in 2019/20.

Audit Name	Key Issues
Supplier Resilience	No consistent and co-ordinated approach to supplier resilience across SCC most significantly once the contract has been awarded.
Mental Health – Financial Decision Making	Several significant weaknesses in the processes for recording, agreement and review of mental health care plans were reported.
Cash Handling	Key issues related to maintaining segregation of duties and audit trails.
Service Planning	
Early Years – Compliance with Code of Practice	Non-compliance with the Somerset Local Provider Agreement with some overclaiming reported.
Children’s Education, Health and Care Plans (EHCPs)	High staff turnover and caseloads are key root causes leading to difficulties in meeting statutory timeframes. The shortage of Educational Psychologists, both in the local area and nationally is of real concern.
Public Health Nursing Services CQC Readiness – Governance Arrangements	There are inconsistent levels of awareness and understanding and some inconsistent practice across staff teams.
Financial and Benefits (FAB) Assessments	Client evidence are currently not collected and retained following an assessment, which means there is reduced assurance that the assessment accurately reflects the information submitted.
Debt Management	Low level of compliance with the Income Code of Practice timescales and recording requirements across service areas.
Somerset Virtual School	Personal Education Plan meetings delayed or not held.
Career Development and Pathways	No agreed consistent approach to career development followed across SCC.
Creditors	Ongoing high level of non-purchase orders. Lack of alignment of authorised officers in SAP and agreed levels of delegation.
Compliance with Corporate Purchasing Policy	Non alignment of the Commissioning Gateway, Contract Procedure rules and the 10 Point Plan and contradictory thresholds for spend.

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

Summary of Control Assurance Opinions

54% of audits results in a substantial or reasonable assurance opinion (2018/19 62%)



Follow-up Work

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	8*
Remaining on JCAD	1
Total	9

In relation to the audits that remain on JCAD further follow-up work will be performed in 2020/21.

A Healthy Organisation follow-up audit was completed in the year. Most actions have either been completed or are in progress.

* This includes Passenger Transport Driver Training Records where a full audit was needed as a new process had been introduced.

Follow-up Work -

Healthy Organisation

Follow-up Work - Healthy Organisation

A Healthy Organisation follow-up audit was completed in the year. There has been a clear effort to address the areas for attention highlighted in 2018/19. Most actions have either been completed or are in progress as can be seen in the table below:

Theme	2018-19 RAG	Total areas for improvement	Complete	In Progress	Not Started	Not Agreed
Corporate Governance	Green	5	2	3	0	0
Financial Management	Amber	8	3	4	1	0
Risk Management	Amber	4	0	4	0	0
Performance Management	Green	6	3	3	0	0
Commissioning & Procurement	Amber	12	4	6	1	1
Programme & Project Management	Green	3	1	2	0	0
Information Management	Amber	7	1	6	0	0
People Management	Green	5	0	4	0	1
Asset Management	Amber	4	0	4	0	0
TOTAL		54	13	37	2	2

A full Healthy Organisation review is planned for 2020/21 which will fully assess each theme.

Added Value

‘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.’

Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to 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”.

In addition to audits undertaken in **Appendix B**, where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where SCC has requested or participated in enabling us to produce benchmarking reports across the partnership:

- **Fraud Bulletins** – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- **Partners Newsletters** – We produce regular partner newsletters that provides information on topical areas of interest for public sector bodies. We have increased the frequency of our newsflash to weekly during Covid-19 to provide relevant information.
- **An Internal Audit View** – These are quarterly newsletters where SWAP and other Local Authority Audit Partnerships convey key audit matters that Local Authorities should be aware.

Responsiveness – we adapt our audit plans to address emerging risks and areas requiring assurance to management, such as the Transformation Lessons learned review and responding to the whistleblowing allegation.

- **Benchmarking and best practice** – we share best practice from our partners wherever possible and undertake benchmarking exercises in a number of audits.
- **Data Analytics** – We are increasing the use of data analytics across all audits to provide a greater level of assurance and insight to trends and themes.

Note: Further areas to add value are contained within our Quality Assurance Improvement Plan and will be rolled out over the next 12 months.

Internal Audit Performance

Internal Audit Performance

SWAP performance is subject to regular monitoring review by both their Board and the Member Meetings. The respective outturn performance results for SCC for the 2019/20 year is as follows;

Performance Target	Performance 19/20	Performance 18/19
<p><u>Audit Plan – Percentage Progress*</u></p> <p>Final, Draft and Discussion</p> <p>Fieldwork Completed awaiting report</p> <p>In progress</p> <p>Not Started</p>	<p>90%</p> <p>10%</p> <p>0%</p> <p>0%</p>	<p>98%</p> <p>0%</p> <p>2%</p> <p>0%</p>
<p><u>Quality of Audit Work</u></p> <p>**Customer Satisfaction Questionnaire</p>	<p>98%</p>	<p>96%</p>

*note some work has taken longer to conclude due to Covid-19 lockdown and changes in priorities and officer availability. All opinion based audits have reached final or draft report stage.

**At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, professionalism and value added.

Internal Audit Performance

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.

Control Assurance Definitions	
None	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.
Partial	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.
Reasonable	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.
Substantial	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
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.

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			Comments
						Recommendation			
						1	2	3	
Opinion Based Audits									
Finance	Key Control	Treasury Management	Final	Substantial	0				
Finance	Key Control	Payroll	Final	Reasonable	6		1	5	
Human Resources	Governance	Use of Volunteers – Disclosure Barring Service (DBS) checks	Final	Reasonable	5			5	
Human Resources	Governance	Health and Wellbeing – Working Well Programme	Final	Reasonable	15		1	14	
Information Management	Governance	Data Subject Access Requests (DSARs)	Final	Reasonable	7		2	5	
ICT	ICT	Disaster Recovery	Final	Reasonable	4			4	
Adult Services	Operational	Somerset Safeguarding Adults Board	Final	Reasonable	5		2	3	
Children's services	Schools	School Expenditure	Final	Reasonable	6		1	5	
Children's Services	Schools	Schools - Pupil Premium Grant	Final	Reasonable	4		1	3	
Children's Services	Schools	Schools - Unofficial Funds	Final	Reasonable	6		2	4	
Children's Services	Operational	Dillington House – Financial Planning	Final	Reasonable	3		2	1	
ECI	Operational	Passenger Transport – Driver Records	Final	Reasonable	3		1	2	Sufficient progress made to remove this audit from JCAD.

Service	Audit Type	Audit Name	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor Recommendation			Comments
						1	2	3	
						ECI	Operational	Community Library Partnerships	
Finance	Key Control	Cash Handling	Final	Partial	12			12	
Finance	Key Control	Debt Management	Final	Partial	9		5	4	
Finance	Key Control	Creditors	Final	Partial	6		2	4	
Procurement	Governance	Supplier Resilience	Final	Partial	9		6	3	
Procurement	Governance	Compliance with Corporate Purchasing Policy	Final	Partial	7		3	4	
Performance	Governance	Service Planning	Final	Partial	17		5	12	
Adult Services	Operational	Mental Health – Financial Decision Making	Final	Partial	9		7	2	
Adult Services	Operational	FAB Assessments	Final	Partial	7	1	4	2	
Children’s services	Operational	Somerset Virtual School	Final	Partial	7		4	3	
Children Services	Operational	Early Years – Compliance with Code of Practice	Final	Partial	5		2	3	
Children’s Services	Operational	Children’s Education, Health and Care Plans (EHCPs)	Final	Partial	15		4	11	
Public Health	Operational	Transfer of Public Health Nursing Services	Final	Partial	14		5	9	
Human Resources	Governance	Career Development and Pathways	Draft	Partial	8		3	5	Some scope reduction needed due to Covid-19
ICT	ICT	ICT Strategy and Governance	Draft	Reasonable	4		2	2	
Children’s Services	Operational	Children’s Services Budget Management	Draft	Reasonable	4			4	

Service	Audit Type	Audit Name	Status	Comments
Follow Ups				
ICT	Follow-up	Software Asset Management	Final	Sufficient progress made to remove from JCAD
ICT	Follow-up	Hardware Asset Management	Final	Sufficient progress made to remove from JCAD
ICT	Follow-up	Active Directory	Final	Sufficient progress made to remove from JCAD
ICT	Follow-up	SAP – General IT Controls	Final	Sufficient progress made to remove from JCAD
Children's Services	Follow-up	Team Around the School	Final	Sufficient progress made to remove from JCAD
Children's Services	Follow-up	Dillington – Financial Controls	Final	Sufficient progress made to remove from JCAD
Adult Services	Follow-up	Better Care Fund	Final	Sufficient progress made to remove from JCAD
Children's & Adults	Operational	Direct Payments	Final	Insufficient progress made to remove from JCAD
Corporate	Follow-up	Healthy Organisation	Final	Overall reasonable progress made
Adult Services	Follow-up	Placements – Financial Related Controls	Preparing Report	Longer to complete due to Covid-19
Finance	Follow-up	Combatting Tax Evasion	Preparing Report	Longer to complete due to Covid-19
Property Services	Follow-up	Premises Management Health and Safety	Preparing Report	Longer to complete due to Covid-19

Service	Audit Type	Audit Name	Status	Comments
Grant Certification Work Completed				
ECI	Grant	Growth Deal – J25 M5 at Henlade	Final	New

Service	Audit Type	Audit Name	Status	Comments
ECI	Grant	Local Transport Capital Funding (including Pothole Action)	Final	New
Children & Families	Grant	Troubled Families – Phase 2 Claims	Final	Certification of claims completed through the year
ECI	Grant	BDUK Grant Certification	Preparing Report	New

Service	Audit Type	Audit Name	Status	Comments
Advisory Work Completed				
ECI	Advisory	Concessionary Fares – Reimbursement Calculation	Final	New
Children's	Advisory	Children's Direct Payment case review	Final	New - Service request
Adult Services	Operational	Residential Homes – contracts	Final	Advisory work to help inform future processes.
Corporate	Advisory	Provision of Advice through changes resulting from Covid-19	Final	New – provision of Ad-hoc advice
Finance	Key control	MTFP	Draft	Changed to Non Opinion – scope reduction agreed due to Covid-19.
PMO	Governance	The Commissioning and Delivery of schools	Preparing Report	Longer to complete due to Covid-19

Service	Audit Type	Audit Name	Status	Comments
Audits Deferred/Removed from the Plan during the year				
Commissioning	Governance	The Commissioning Gateway	Removed	Audit work will be part of the scope of the corporate contract management audit. Day reallocated to grant work required.

Service	Audit Type	Audit Name	Status	Comments
Children's services	Operational	SEN Data Management	Removed	Removed from plan due to lack of client response. In discussion to reinstate.
Human Resources	Operational	Apprenticeship Scheme	Removed	Deferred to 2020/21 to release days for Concessionary Fares work.
Performance	Governance	Value for Money Strategy and Reporting	Removed	Removed as longer needed for strategy to embed. Replaced with corporate purchasing policy review.
Procurement	Governance	Corporate Contract Management	Deferred	The new Contract Management Framework will not be finalised in time for a useful audit to be conducted in 2019-20. Deferred until Q1 2020-21.
All	Advisory	Organisational redesign - MTFP Lessons Learnt– Advisory review	Removed	Removed due to Covid-19.
PMO	Governance	Project Management - Use of Project Mobilisation Toolkit	Deferred	Longer needed for Toolkit to embed
Children's Services	Operational	Independent Placements - Financial Controls & Contract Management	Deferred	Significant organisational changes have taken place.
Adults	Operational	Workforce Planning	Deferred	Replaced with Somerset Safeguarding Adults Board review.
Adult Services	Follow-up	Mental Health – Care Plans	Removed	Superseded by Mental Health Financial Decision Making
Human Resources	Follow-up	Role of the Somerset Manager	Deferred	To provide a longer timeframe to implement overarching recommendation.
ICT	ICT	Vulnerability Management	Removed	Shortage of IT resource – as discussed with Audit Committee and Governance Board.
ICT	ICT	Cloud Service Management	Removed	As above
ICT	ICT	Firewall Management	Removed	As above
ICT	ICT	Agile ICT Audit Project Assurance	Removed	As above