



# Somerset County Council

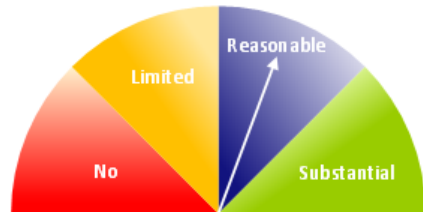
## Internal Audit Annual Opinion Report 2020/21

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Unrestricted

# Internal Audit Annual Opinion – 2020/21: ‘At a Glance’

## Annual Opinion



There is generally a sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.

## The Headlines

	<b>No high corporate risks reported in the year</b>
	<b>44 reviews delivered as part of the 2020/21 Internal Audit Plan.</b> Covers assurance, advisory, grant certification and follow up reviews.
	<b>Healthy Organisation.</b> Medium assurance rating overall with financial management moving from ‘Amber’ to ‘Green’.
	<b>Five out of six follow-ups conducted report risk reduced to a satisfactory level.</b>
	<b>Range of innovations and enhancements made to our internal audit process throughout the year.</b> One-page audit report, continuous assurance and the introduction of Agile auditing and planning.

## Internal Audit Assurance Opinions 2020/21

Substantial	2
Reasonable	8
Limited	6
Medium (HO)	1

## Internal Audit Agreed Actions 2020/21

Priority 1	4
Priority 2	47
Priority 3	64
<b>Total</b>	<b>115</b>



**SWAP**  
INTERNAL AUDIT SERVICES  
Assuring – Improving – Protecting

SWAP 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.

## Executive Summary

Internal Audit provides an independent and objective opinion on the effectiveness of the Authority's risk management, control and governance processes.



### Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
  - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
  - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
  - the effectiveness of risk management processes; and
  - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- Disclose any qualifications to that opinion, together with the reasons for the qualification.
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria.
- Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

# Executive Summary

## Three Lines Model

To ensure the effectiveness of an organisation's risk management framework, the Audit and Governance Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line – functions that own and manage risk.
- the second line – functions that oversee or specialise in risk management, compliance.
- the third line – functions that provide independent assurance.

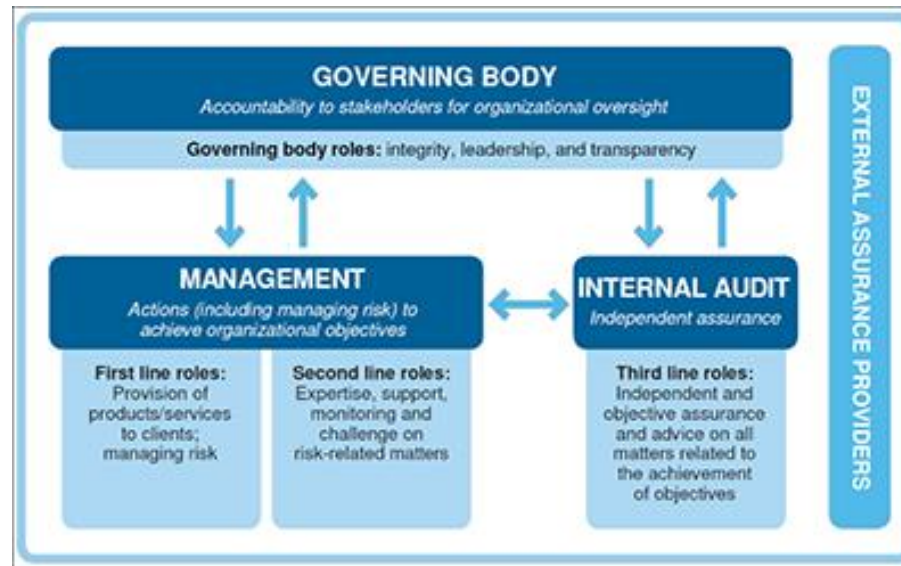


## Background

The Internal Audit service for 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. This report summarises the activity of the Internal Audit team for the 2020/21 year.

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



## Internal Audit Annual Opinion 2020/21

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



### Annual Opinion

On the balance of our 2020/21 audit work for Somerset County Council, I am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

A schedule of audit work delivered can be found at Appendix A.

Across the whole of 2020/21 the priority for the Council has needed to be its response to Covid-19. This has meant more changes to the audit plan than usual, but as in more normal times, audit work has been planned to ensure that sufficient assurance is available to support the annual opinion. Despite the pandemic, the professional requirements of the Public Sector Internal Audit Standards (PSIAS) have remained unchanged and in line with these, new audit priorities to cover the risks from the impact of Covid-19 have been agreed throughout the year and that work supports the annual opinion.

Additional audits performed relating to risks associated with the Covid-19 emergency response were:

- Covid-19 expenditure approvals
- Treasury Management on-line authorisations
- Response to Procurement Policy note 02/20 (Covid-19 Procurement Regulations)
- Covid-19 Bus Services Support Grant – Tranches 1 and 2
- Debtors and Creditors Continuous Assurance

It has been necessary to defer some audit work to 2021/22 and this has been reported throughout the year. The main reasons for this are:

- Additional audit work on new risks associated with Covid-19 being delivered.
- Some areas of the Council faced significant resource challenges as leading the Council's response to the pandemic, meaning key staff were not accessible to internal auditors.

- Resource challenges resulting in delays in planned work on implementing agreed recommendations, delaying follow-up work.
- Demands on internal audit for advisory and non-audit support work increased.

Despite changes to the plan, audits delivered over the year have provided coverage across the Council's key services and in relation to its strategic risks. A summary of audit work carried out against the Council's strategic risk areas is provided in the next section on page 6.

Healthy Organisation is a review of the corporate control framework and a key source of assurance this year with an overall rating provided of Medium. A significant improvement made since the last review, two years previously, was in Financial Management which moved from 'Amber' to 'Green' due to better budget planning, setting and management. Frameworks in areas previously assessed as strong, such as Performance, Programme and People management have remained so or have improved further. We concluded that the considerable actions taken by the Council to respond to the pandemic, which included emergency governance arrangements and redeployment of hundreds of staff, has not resulted in any significant adverse impact on service delivery or the overarching control framework. A summary of the results can be found on page 9.

All reviews have been completed to report stage, with only three waiting to be finalised. Of these, 16 have opinions with 10 (59%) having received Reasonable or Substantial Assurance and the remaining given Limited assurance. This is very similar to the 62% reported in 2019/20. The internal audit plan continued to be focused towards high risk areas and given the impact of the pandemic on resources, this outcome is viewed positively. I also continue to be encouraged by the management responses received and the readiness to accept and address the matters raised in audit reports.

As stated above it has been necessary to reschedule some of the planned follow-up reviews to 2021/22 to allow more time for agreed recommendations to be implemented. Six follow-up audits were carried out during the year and overall this work confirms the implementation of agreed recommendations to mitigate exposure to areas of significant risk. For five of the six audits the risks have been judged to have been reduced sufficiently to be removed from the risk management system.

16 advisory audits were completed and these represented the main additions to the plan over 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 control frameworks in new areas as well as in areas of concern or uncertainty. 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 an indicator of good governance. Where such advisory work has identified significant weaknesses these are subject to follow-up in future plans, as will take place for the Contractor Application for Payment process.

There were no significant fraud investigations undertaken during the year. A baseline assessment of maturity in relation to fraud was carried out which did identify areas where the strengthening of controls was recommended. This report is being used by the Council to drive improvement. The review was conducted at eleven partners and broadly similar results were reported.

## Summary of Audit Work 2020/21

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



### Audit Coverage by Strategic Risk

Strategic Risk	Coverage	Assurance assessment based on completed internal audit work
ORG0009 – Safeguarding Children	Yellow	Safeguarding in schools, Independent Non Maintained School Placements.
ORG0053 – Organisational Resilience (including Business Continuity, Civil Contingencies, Health & Safety, cybersecurity, information management)	Dark Blue	Business continuity, cyber security framework review, Apprenticeship scheme, Healthy Organisation.
ORG0054 – Climate Change	Red	Strategy only recently launched – to include in 21/22.
ORG0055 – Partnerships	Dark Blue	Local Enterprise Partnership Governance, Community Learning Partnerships.
ORG0056 – Covid19 pandemic effects on suppliers	Dark Blue	Response to Procurement Policy Note 02/20.
ORG0057 – Sustainable MTFP	Dark Blue	Adults budget management, parking income, Big Bus, Treasury Management, Healthy Organisation.
ORG0058 – Uncertainty around Local Government Reorganisation	Red	Outcome not yet known – to include in 21/22.
ORG0002 – External influences affecting commissioning	Dark Blue	Healthy Organisation (procurement and commissioning), response to Procurement Policy Note 02/20.
ORG0024 – Market Management and Development	Dark Blue	Healthy Organisation (procurement and commissioning), Big Bus.

#### Table Key

Dark Blue	Reasonable internal audit coverage
Yellow	Limited internal audit coverage
Red	No recent internal audit coverage
Dark Red	Proposed internal audit coverage removed



## Summary of Audit Work 2020/21

### Definitions of Corporate Risk

#### High Risk

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

#### Medium Risk

Issues which should be addressed by management in their areas of responsibility.

#### Low Risk

Issues of a minor nature or best practice where some improvement can be made.



### Significant Corporate Risks

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'.

# Summary of Audit Work 2020/21

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

## Assurance Definitions

<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.



## Summary of Audit Opinion

Table 1: Summary of Audit Opinions

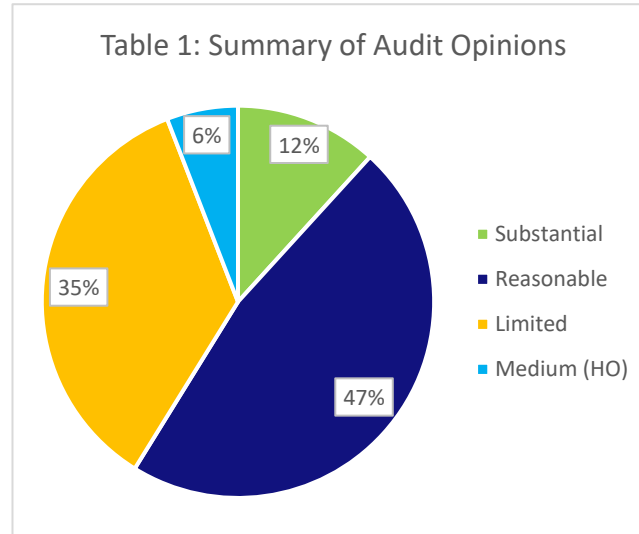


Table 2: Audit Work by Type

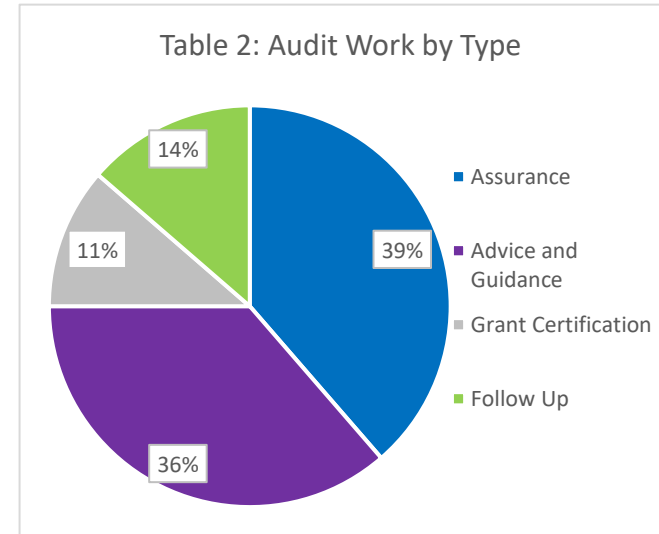


Table 1 above indicates the spread of assurance opinions across our work during the past year.

Table 2 indicates the audit work by type. Whilst assurance work is the key focus of internal audit, internal audit has the knowledge and skills to be able to provide advisory work and the number of advisory projects did increase during the pandemic.

# Summary of Audit Work 2020/21

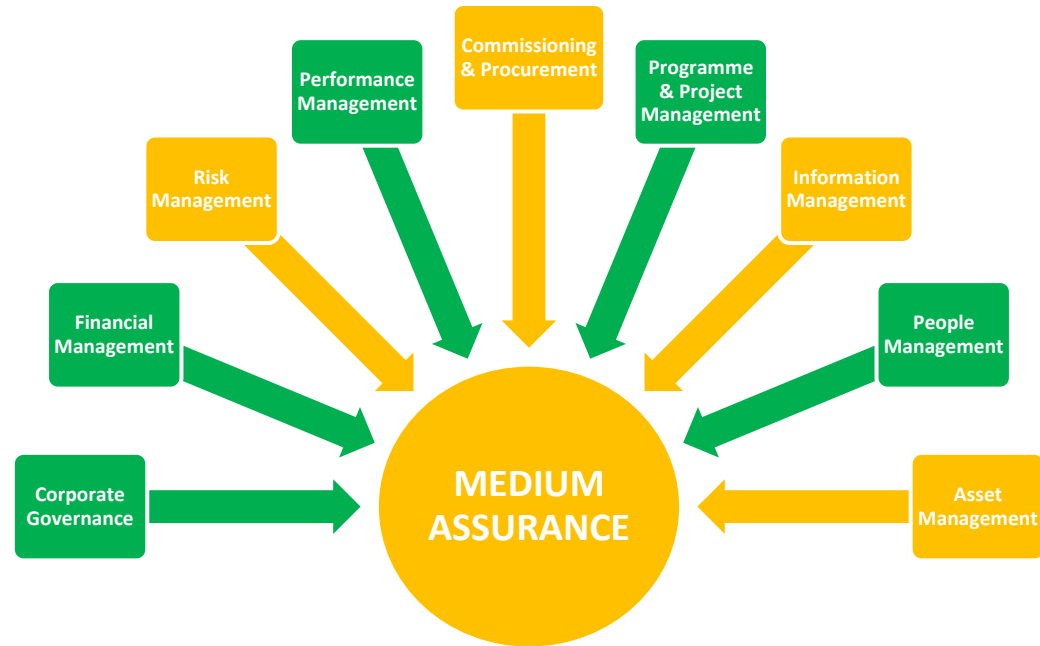
## Healthy Organisation

An objective assessment of the management control framework or 'Health' of an organisation.



## Healthy Organisation Summary

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



**R/A/G Rating Key:**

- RED** (Low Assurance / High Risk)
- AMBER** (Medium Assurance / Medium Risk)
- GREEN** (High Assurance / Low Risk)

Overall a **Medium Assurance** opinion, was provided, with a 'Green' assessment for five of the nine themes. Areas for attention identified as part of the review are monitored monthly by SCC's governance board and will also be subject to a follow-up in 2021/22.

### 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

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

#### **Benchmarking**

During the year we have included benchmarking data as part of our audit work using information gained from either the SWAP partnership or from the wider reach of the Local Authority Chief Auditors Network (LACAN) for:

- Baseline Assessment of Fraud
- Adult Client Finances
- Effectiveness of the Schools Forum

#### **CIFAS Data Matching**

SWAP paid the annual subscription for 2020/21 to enable Somerset County Council to be part of CIFAS. This data matching service will help the Council to both detect and prevent fraud. SWAP is working with both CIFAS and the Council to facilitate data matching work in the following areas:

- Blue badges – to help identify whether badges issued remain valid by checking badge holders to the deceased database.
- Adult Services, residential homes and domiciliary services – to help ensure payments made remain valid, checks are proposed once the new Adults management system Eclipse is operational.

#### **Staff Redeployment**

One member of staff was redeployed to Facilities Management from November to March.



### Innovations and Enhancements to our Audit Process

We have taken the opportunity to implement and introduce a number of innovations and enhancements to our audit process. This has included introducing the concept of 'Agile Auditing' to our audit process. With increased collaboration and a joint commitment with the service under review, it is possible to complete audits faster and more efficiently. We have used this concept to complete a number of audits this year and have had positive feedback from the senior managers working with us on these reviews. This will now be rolled out for all audits, wherever possible, in 2021/22.

During the first lockdown SWAP developed continuous assurance reporting for debtors and creditors to provide high level assurance at a time when organisational activity was directed to the front-line response to the pandemic. The reasonableness of financial information was assessed by comparing data over time and in relation to known operational activity.

Continuous assurance reporting was carried out with the help of SWAP's two newly appointed Data Analysts and we are looking to include analysis of data as part of our auditing wherever possible. This allows us to assess whole populations of data, as well as enabling us to target our testing in a more effective manner.

During the year a new one-page audit report was introduced that directs managers to key findings and recommendations. Feedback on the report style has been extremely positive.

SWAP's Counter Fraud Team has also facilitated access to counter fraud intelligence resources and issued alerts and newsletters to key officers in the Council.

## Plan Performance 2020/21

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).



### SWAP Performance

SWAP's performance is subject to regular monitoring and review by both the SWAP Board of Directors and the Owners Board. The respective outturn performance results for Somerset County Council for 20/21 year are:

Performance Target	Average Performance
<b><u>Audit Plan – Percentage Progress</u></b>	
Final, Draft and Discussion 90%	100%
In progress/Review	0%
Yet to complete	0%
<b><u>Customer Satisfaction Questionnaire</u></b>	
Feedback 95%	100%

SWAP work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm compliance to the required standards. SWAP was recently assessed in February 2020 and confirmed that we are in conformance to PSIAS.

Attribute Standard 1300 of the IPPF requires Heads of Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues this dual aspect by stating that the programme must include both internal and external assessments. This acknowledges that high standards can be delivered by managers, but it also implies that improvements can be further developed when benchmarking is obtained from outside the organisation and the internal audit function. Following our External Assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to make, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our actions.

Audit Type	Audit Name	Quarter	Opinion/Other	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
<b>Opinion Based Audits</b>							
Governance	Apprenticeship Scheme	1	Limited	6		2	4
School	Safeguarding in Schools	1	Limited	5		2	3
Key Control	Staff Expenses	2	Reasonable	5		1	4
Operational	Parking Income	1	Reasonable	4		2	2
Key Control	Treasury Management (on-line authorisation)	2	Substantial	1			1
Governance	Local Enterprise Partnership (LEP) Governance	2	Reasonable	10		1	9
School	School Theme – Community Learning Partnerships	3	Limited	6		4	2
Healthy Organisation	Healthy Organisation (HO)	2	Medium Assurance				
Operational	Adults Budget Management	2	Reasonable	4		1	3
Governance	COVID-19 Expenditure Approvals	2	Substantial	1			1
Operational	Big Bus Project	3	Reasonable	5		2	3
Key Control	Debt Management	3	Limited	11		6	5
Operational	Independent Non Maintained Schools – Contracts/Individual Placement Agreements	4	Reasonable	7		2	5
Operational	Adults Absence Management – sickness and leave	4	Reasonable	7		1	6
Operational	Adults Client Finances	4	Reasonable	4		1	3

## Plan Performance 2020/21

Audit Type	Audit Name	Quarter	Opinion/Other	No of Rec	1 = Major	↔	3 = Medium
					Recommendation		
					1	2	3
Operational	Effectiveness of the School's Forum	4	Limited	12		2	10
Governance	Baseline Assessment of Fraud Risk	4	Overall controls assessed to be partially in place.	6		6	
<b>Follow-ups</b>							
Follow-up	Corporate property maintenance - schools	1	Sufficient progress made to remove from JCAD				
Follow-up	Service Planning	2	Sufficient progress made to remove from JCAD				
Follow-up	Early Years Follow Up	4	Sufficient progress made to remove from JCAD				
Follow-up	Risk management	2	Insufficient progress made to remove from JCAD				
Follow-up	The Education of Children Looked After	1	Sufficient progress made to remove from JCAD				
Follow-up	The Virtual School	4	Sufficient progress made to remove from JCAD				
<b>Grants</b>							
Assurance	DfT COVID-19 Bus services support grant – Tranche 1	1					
Assurance	DfT COVID-19 Bus Services Support Grant - Tranche 2	2					
Assurance	Bus Subsidy Ring Fenced Revenue Grant	3					
Assurance	Troubled Families – Phase 2 Claims	1-4					
Assurance	Local Transport Capital Funding (including Pothole Action Fund)	2					



## Plan Performance 2020/21

Audit Type	Audit Name	Quarter	Opinion/Other	No of Rec	1 = Major	↔	3 = Medium
					Recommendation		
					1	2	3
<b>Advisory Work</b>							
Advice	Beech Grove PTA Fund	2					
Investigation	Procurement investigation	1					
Investigation	Use of Procurement cards	2					
Advice	Response to Procurement Policy Note 02/20 (Covid-19 Procurement Regulations)	1	Advisory but found overall Council's response was reasonable.	4		2	2
ICT	ICT Governance Risk Scope Review	1					
ICT	Cybersecurity Framework Review	3	Advisory but found overall evidence of controls in place/being developed across most areas.	10	1	9	
Advice	Contractor Application for Payment Review	1		7	3	3	1
Advice	Research – Transformation and Budget Monitoring	3					
Governance	Business Continuity Plan Updates	3					
Advice	Special Audit Review	3					
Advice	Avalon School Hydrotherapy Pool	2					
Advice	SCC COVID-19 Response Advice - Various	1					
Key Control	Debtors and Creditors Continuous Assurance	1					

## Plan Performance 2020/21

Audit Type	Audit Name	Quarter	Opinion/Other	No of Rec	1 =	↔	3 =
					Major		Medium
					1	2	3
Governance	Assurance Mapping	2					
Advice	Financial Procedures	3					
Advice	CIFAS – Planning for Blue Badges/Adult Social Care	3					
<b>Audits Deferred/Removed</b>							
Operational	SEND casework	1	Deferred				
Follow-up	Childrens – Education Health and Care Plans (EHCPs)	1	Deferred				
Operational	Adult Commissioning	1	Deferred				
Follow-up	Corporate Management of Health and Safety	1	Deferred				
Operational	Community Asset Transfers	2	Replaced with new higher risk work.				
Operational	Insurance Claims	2	Replaced with new higher risk work.				
Operational	Education Health & Care Plan Reviews	2	Deferred				
Follow-up	Mental Health – Financial Decision making	2	Deferred				
Follow-up	Cash Handling	2	Deferred				
Follow-up	Lone Working	2	Deferred				
Follow-up	FAB Assessments	3	Deferred				

## Plan Performance 2020/21

Audit Type	Audit Name	Quarter	Opinion/Other	No of Rec	1 =	↔	3 =
					Major		Medium
					1	2	3
Operational	Corporate Landlord Model	3	Deferred				
Operational	Adults – Workforce Planning	3	Deferred				
Governance	Project Management – Use of Project Mobilisation Toolkit	3	Deferred				
Operational	Eclipse System Implementation	4	Deferred				
Follow-up	Transfer of Public Health Nursing Services	4	Deferred				
Operational	Construction Design Management (CDM) Regulations	4	Deferred				
Operational	Wells Enterprise Centre	4	Deferred				
Governance	Whistleblowing	4	Deferred				
Operational	Early Help Assessments	1	Deferred				
Follow-up	Role of the Somerset Manager	4	Deferred				
Operational	Independent Placements – Financial Controls & Contract Management	2	Deferred				
Governance	Information Asset Register	4	Deferred				
Operational	Exclusions and Attendance	4	Deferred				
Follow-up	Supplier Resilience	3	Deferred				
Grant	BIDUK Broadband Grant Certification	4	Deferred				

## Plan Performance 2020/21

Audit Type	Audit Name	Quarter	Opinion/Other	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
Governance	Contract Management Framework	2	Deferred				