



**SWAP**

**INTERNAL AUDIT SERVICES**

Helping Organisations to Succeed

# South Somerset District Council

## Report of Internal Audit Activity

2021-22 Progress Update Report February 2022

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## Internal Audit Plan Progress 2021-22

### Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



### Role of Internal Audit

The Internal Audit service for the South Somerset District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting in March 2021.

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

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Management Team. This year's Audit Plan was reported to and approved by this Committee at its meeting in March 2021. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

# Internal Audit Plan Progress 2021-22

## Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 3 being minor or administrative concerns to 1 being areas of major concern requiring immediate corrective action.



## Internal Audit Work Programme Update

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2021/22. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

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

The following table summarises Audits finalised since the last update in October 2021:

Audit Area	Opinion
Chard Regeneration Project – Lessons Learnt	Advisory
<b>New:</b> Green Homes Grant	Grant Certification
<b>New:</b> Ongoing urgent confidential matter	Advisory
Regeneration Project Governance	Follow Up

Further details can be found below on the Chard Regeneration Project – Lessons Learnt and progress made with the Regeneration Project Governance recommendations from our 2020-21 audit.

# Internal Audit Plan Progress 2021-22

**Significant Corporate Risks**  
**Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.**

**Completed Assignments:**

**Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.**

- **Limited or No Assurance Opinions**
- **Follow-ups**



## Significant Corporate Risks

We provide a definition of the 3 Risk Levels applied within audit reports and these are detailed in **Appendix A**. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with significant corporate risks.



## Summary of Work Completed – Limited or No Assurance Opinions

There are no limited or no assurance opinion pieces of work to bring to your attention.

# Internal Audit Plan Progress 2021-22

## Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

- Limited or No Assurance Opinions
- Follow-ups



## Summary of Work Completed – Follow up Audits

### **Regeneration Project Governance - November 2021 - Follow Up**

The original audit of Regeneration Project Governance was completed in July 2020 and received a Limited assurance opinion. The original audit review covered whether investment does not deliver regeneration as a result of poor project governance leading to financial loss and reputational damage.

Follow Up Progress Summary				
Priority	Complete	In Progress	Not Started	Summary
Priority 1	0	0	0	0
Priority 2	1	1	1	3
Priority 3	1	1	0	2
<b>Total</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>5</b>

One priority 2 and one priority 3 action remain in progress. One priority 2 action will not be completed. This relates to the implementation of a corporate project management framework and cannot be implemented due to a lack of staff capacity to drive the action forward.

Below summarises progress against the high priority findings (Priority 1 & 2 only) as of November 2021:

Priority 2 finding - *Inconsistent practices are in place to manage and control the regeneration programmes.*

An interim PMO Specialist had been recruited but was almost immediately moved to another role and then went on maternity leave. The vacant post will not be recruited into and the Lead Specialist – People Performance and Change does not have capacity to take this action forward, therefore it is unlikely that this will be progressed.

Revised target date: Not set

## Internal Audit Plan Progress 2021-22

### Completed Assignments:

**Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.**

### Summary of Work Completed – Follow up Audits Continued

Priority 2 finding - *The roles and responsibilities of the Strategic Development Board are unclear in relation to the regeneration programme.*

These have now been re-revised in line with other revisions to project governance arrangements. The Terms of Reference (ToR) for the Strategic Development Board and the three Regeneration Project Boards have been revised by the Director – Place and Recovery and the draft ToRs have gone out for comments before approval. Revised target date – 30 November 2021

Priority 2 finding - *There is an inconsistent approach to governance at the Regeneration Programme Boards (Reference: Standing agenda for Regeneration Boards).*

Agreed action now complete. Copies of standing agendas for Chard, Yeovil and Wincanton Regeneration Boards provided and I can confirm that it includes key items such as a review of the risk register. The third, fourth and fifth items on the agendas are variable depending on what's going on with the projects and the risk register is reviewed towards the end in case anything else in the meeting impacts the risk review. Revised target date – n/a – assessed as complete.

### Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.



### Summary of Work Completed – items for attention

#### **Chard Regeneration Project – Lessons Learnt**

The Chard Regeneration Programme has delivered a new leisure centre within the gross budget set by Full Council. While it has been delivered within the gross budget there were overspends on phase 1 that have impacted on the ability to deliver some of the other elements of the programme at this time as additional external funding will be required to enable this work to begin. In September 2021 a report was taken to District Executive to pause the next phase of this project until external funding could be obtained to enable the work to begin.

We were requested to carry out a lesson learnt review on the Chard Regeneration project focussing on the following areas:

- Financial Modelling process used
- Decision Making process
- Scrutiny of project
- Value for Money
- Transparency of progress to Members and officers

We identified weaknesses in some areas, particularly in relation to budget setting and transparency of the project. The following areas were identified for lessons to be learnt:

- Original cost estimations were unrealistic and not enough work was undertaken to ensure the initial cost information was realistic, budgets and funding was not updated as estimates became known.
- Budget monitoring was based purely on being within the overall gross and net budgets and not how this breaks down across the various proposed elements of the project. Without a breakdown it is not clear how approval of costs would impact on the ability to deliver all elements included in the project scope.
- Decision making did not follow delegated authority where decisions impacted on the overall scope of the project.
- Changes in staffing during the life of the project has resulted in knowledge being lost when they left, replacements have to spend time trying to understand the background and ensure they have all records they need.

There were limitations in completing the review as key officers who were involved in the project are no longer at the Council and due to weaknesses with record keeping, some supporting evidence could not be found.



## Internal Audit Plan Progress 2021-22

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



### SWAP Performance

SWAP now provides the Internal Audit service for 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for South Somerset District Council for the 2021/22 (as of January 2022) were as follows:

Performance Target	Target Year End	Average Performance
<p><b><u>Audit Plan – Percentage Progress</u></b>                      Final, Draft and Discussion                      In progress                      Yet to complete</p>	>90%	55% 32% 14%
<p><b><u>Quality of Audit Work</u></b>                      Customer Satisfaction Questionnaire</p>	>95%	100%
<p><b><u>Outcomes from Audit Work</u></b>                      Value to the Organisation  <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p>	>95%	Reported Year End

## Internal Audit Plan Progress 2021-22

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



### Approved Changes to the Plan

We will regularly re-visit and adjust our rolling programme of audit work to ensure that it matches the changing risk profile of the organisation's operations, systems, and controls. Details of our current work areas are provided in **Appendix B**.

Unplanned work, special reviews or projects carried out on a responsive basis which are requested as new and emerging risk areas and which result in significant changes to the agreed plan will be reported to the Audit Committee.

The following table highlights changes to the plan since the October update report. There are also some required/requested timing changes of reviews which would be separately identified if considered to be significant.

Assignment	Amendment	Reason
Decarbonisation Grant – CIA Sign Off	Added	Requirement for Head of Audit to sign off grant expenditure. Value c.£3.9M
Unitary Lessons Learned	Added	Piece of work to collate lessons learned from other Local Authorities that have recently transitioned to a Unitary Authority.

Assurance Definitions	
<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are 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 exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Non-Opinion/Advisory</b>	In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance.

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.

Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
					Major		Minor	
					Recommendation			
1	2	3						
<b>Completed Work</b>								
Advisory	Fraud Risk Assessment	Final	Advisory	0	0	0	0	
Assurance	Boden Mill & Chard Regeneration Scheme Accounts Review	Final	Advisory	0	0	0	0	
Assurance	<b>New:</b> Growth Deal Capital Expenditure Certification	Final	Advisory	0	0	0	0	
Assurance	Yeovil Cemetery & Crematorium Annual Accounts	Final	Advisory	1	0	0	1	
Assurance	<b>New:</b> Patch Management	Final	Reasonable	2	0	0	2	
Assurance	Procurement	Final	Reasonable	4	0	1	3	
Assurance	Homelessness Follow Up	Final	Follow Up (Advisory)	5	0	3	2	Relates to outstanding recommendations raised in 2020-21
Assurance	Chard Regeneration Project – Lessons Learnt	Final	Advisory	-	-	-	-	No formal recommendation raised but lessons learnt have been captured for future work.
Grant Certification	<b>New:</b> Green Homes Grant	Final	Grant Certification	-	-	-	-	
Confidential matter	<b>New:</b> Ongoing urgent confidential matter	Final	Advisory	-	-	-	-	Review includes separate controls assurance report.
Assurance	Project Governance Regeneration Projects Follow Up	Final	Follow Up (Advisory)	3	-	2	1	Two recommendations complete. 1 P2 and 1 P3.

Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
					Major		Minor	
					Recommendation			
1	2	3						
<b>Reporting</b>								
Assurance	Covid-19 - External Recovery plan	Under Review / Drafting						
<b>In Progress</b>								
Assurance	Covid-19 Discretionary grants	In Progress						On Hold – due to Omicron Grant
Grant Certification	Covid-19 Grants – Post Payment Assurance Restart Grant	In Progress						On Hold – due to Omicron Grant
Assurance	Council Tax & NNDR	In Progress						
Assurance	Opium arrangements	In Progress						
Assurance	Debtors	In Progress						
Advisory	<b>NEW:</b> Unitary Lessons Learned	In Progress						
Assurance	User Access Management arrangements	In Progress						On-Hold
<b>Not Started</b>								
Assurance	<b>NEW:</b> S106 Follow up Audit	Not Started						
Fraud, Corruption and Governance	Commercial investments	Not Started						
Grant Certification	<b>NEW:</b> Decarbonisation Grant CIA Sign-Off	Not Started						

Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
					Major		Minor	
					Recommendation			
1	2	3						
<b>Deferred</b> (moved to rolling schedule of Audits) <b>or Removed</b> (no longer risk/area to audit)								
Fraud, Corruption and Governance	Complaint Procedures	Deferred	Reported to Audit Committee July 2021					
ICT	Incident management or Information Security (IS)	Deferred	Reported to Audit Committee October 2021					
Follow Up	Income Generation Follow up	Removed	Separate update on recommendations to be provided from management					
Operational	Health & Safety Framework	Deferred	Reported to Audit Committee October 2021					
Key Control	Housing Benefit	Deferred	Reported to Audit Committee October 2021					
Fraud, Corruption and Governance	Covid-19 - Financial Impacts and Lessons learned	Removed	Reported to Audit Committee October 2021					
Fraud, Corruption and Governance	Restart Grants – Bank Account Check	Removed	Reported to Audit Committee July 2021					
Fraud, Corruption and Governance	Planning policy Change - Phosphate	Deferred	Reported to Audit Committee July 2021					
Fraud, Corruption and Governance	Decarbonisation Grant	Deferred	Reported to Audit Committee July 2021					