Somerset West and Taunton Council

Internal Audit Annual Opinion Report 2020/21

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

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

No Significant Risk identified in year after testing the controls in place.

28 reviews delivered as part of the 2020/21 Internal Audit Plan.
Includes assurance, advisory and follow up reviews (22 final, 4 Draft, 2 in progress).

Internal Audit staff redeployed directly into Council areas to assist with the COVID response.
COVID 19 Additional Restriction Support Grant processing and post payment checks.

Range of innovations and enhancements made to our internal audit process throughout the year.
One-page audit report, introduction of Agile auditing and planning.

*Final Reports only

Internal Audit Assurance Opinions 2020/21 *

Substantial	0
Reasonable	4
Limited	3
No Assurance	0
Advisory / Follow Up	15

Internal Audit Agreed Actions 2020/21*

Priority 1	1
Priority 2	19
Priority 3	24
Total	44

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.

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.

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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.**
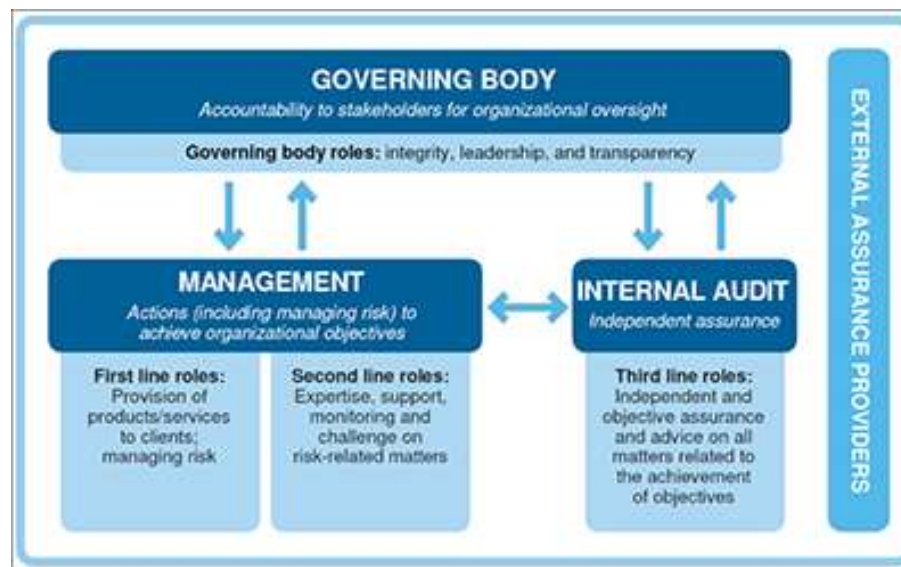
Background

The Internal Audit service for Somerset West and Taunton 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.

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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 West and Taunton Council, I am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

Just as in more normal times, audit work has been planned to ensure that sufficient assurance will be available to support the annual opinion. The professional requirements of 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.

The additional audits performed to carry out assurance work on new risks associated with the Covid-19 emergency response were:

- Covid-19 Business Grant Support/Advice (Grant Process Controls)
- Grant Funding Schemes Assurance for Local Authorities (Risk Assessment)
- Local Restriction Grant Support (Grant Process Controls)
- Compliance and Enforcement Grant
- Fraud Risk – Impact of Covid-19

It has been agreed to defer some of the audit work to 2021/22 and this has been reported throughout the year to the Audit, Governance and Standards Committee. The main reasons for this was due to additional advisory work to support Covid-19 Grants and redeployment of some audit staff to support the Council's response to the Pandemic. With the exception of where SWAP staff were redeployment, all other work has been taken into account for this annual audit opinion.

The following are considered key pieces of audit work that support the annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control:

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Annual Opinion

- *Cyber Security Framework Review*
- *ICT Governance and Risk Review*
- *Financial Control and Reporting*
- *Ethical Governance & Culture*
- *Baseline Assessment of Maturity for fraud.*
- *Housing Governance and Compliance Reporting*
- *Procurement*

Throughout a challenging year, we have tried to ensure a balance between providing direct assistance to the Council and maintaining a continuum of audit work. We are pleased to report we have achieved this, although it must be recognised coverage is not comparable to previous or 'normal' years. The table at Figure 1 below attempts to capture our audit coverage this year, mapped against the Authority's key risks. It must be noted that the risk register is a live document and subject to changes during the year. It is not possible to cover all key risks in any one year but to provide coverage over the medium term.

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Summary of Audit Work 2020/21

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

Audit Coverage by Corporate Risk

Figure 1: Audit Coverage by Corporate Risk*

Table Key	Reasonable internal audit coverage 2020-21	Partial internal audit coverage 2020-21	No internal audit coverage 2020-21

Corporate Risk Title	Coverage
Not Achieving Carbon Net Zero by 2030	
ICT Power Down	
Procurement	
Cyber Security	
Financial sustainability	
Supplier exposure	
Civil contingencies and organisational resilience	
Land Supply/ Unplanned development	
Supporting Gypsy and Traveller communities	
Data quality / robustness	
Rough Sleeping provision	
Operational Risk Assessment	
Landlord safety checks	
Contractual Pay	
Business Continuity	
Public Health Emergency	
Unitary Council	

*Corporate Risks as March 2021. Note some audit work aligned to corporate risks now down graded to 'issues' or now monitored on directorate risk registers due to improvement in controls.

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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

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at a 'Corporate' level once we have tested the controls in place. Where the controls are found to be ineffective and the 'Corporate risk' as 'High' these are brought to the Audit Committees attention. For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

Review Name / Risks
No risks identified as High during period.

Summary of Limited Assurance Audits

Audit Name	Risk Rating	Priority Findings		
		1	2	3
Ethical Governance and Culture	Medium	0	3	4
Procurement	Medium	0	5	2
DLO External Work – Income	Medium	1	6	3

Note all these audits have been reported throughout 2020-21 to the Audit, Governance & Standards Committee and follow up work has been scheduled during 2021-22 to provide assurance control measures are improved.

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SWAP INTERNAL AUDIT SERVICES
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At the conclusion of an audit assignment each review is awarded an Audit Assurance Opinion:

- **Substantial - A sound system of governance, risk management and control exists.**

- **Reasonable - Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.**

- **Limited - Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives.**

- **None - The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives.**

Summary of Audit Opinion

Assurance Opinion

Reasonable 18%

Limited 14%

Advisory 54%

Follow-up 14%
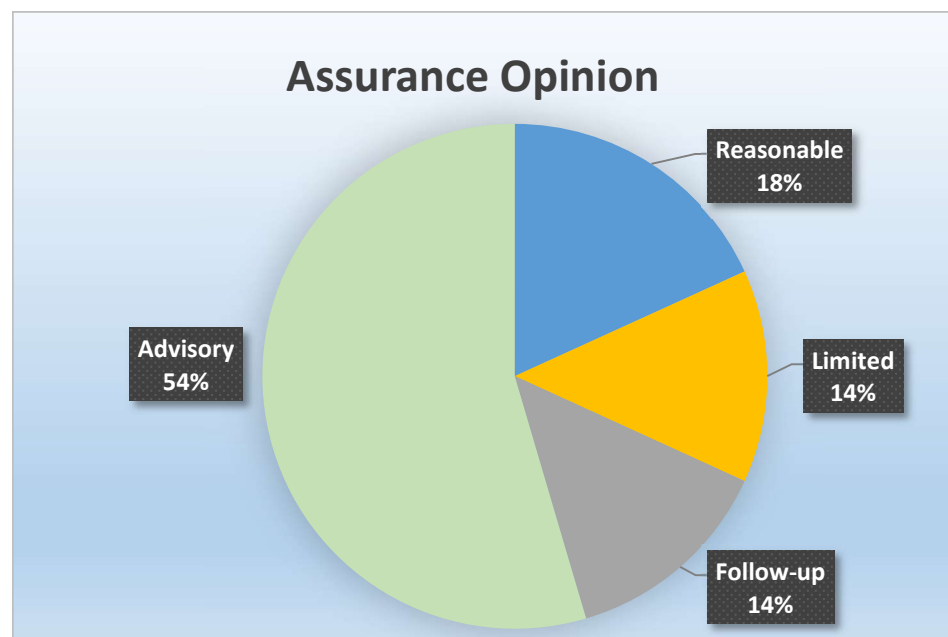
The Chart above indicates the spread of assurance opinions across our work during the past year (2020-21). Due to Covid-19 more time has been spent on 'Advisory' work, although the majority of the Advisory work has been taken into account when forming the Annual Opinion. Totals based on work at Final Report status.

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SWAP INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

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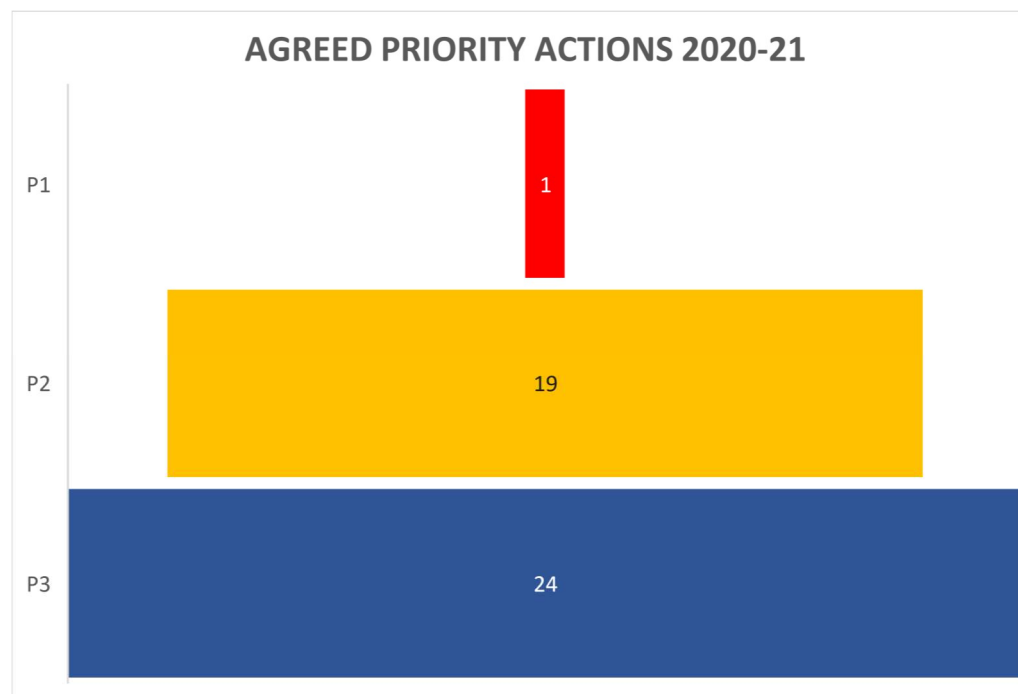**SWAP Performance - Summary of Audit Actions by Priority**

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

Priority Actions

Note: Does not include actions from Cyber Security Framework Review and ICT Governance Risk Scope Review. Outcomes from these reviews were not assessed on the priority scoring system, but rather to highlight areas that were fully compliant, requires further work or requires immediate attention. Totals based on work at Final Report status.

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Added Value

Extra work that goes beyond the standard expectations and provides something that is beneficial to the customer for little or no extra 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 provided benchmarking data across either the SWAP partnership or the wider reach of the Local Authority Chief Auditors Network (LACAN) for:
- Baseline Assessment of Maturity for Fraud comparison.
- Risk Management Maturity Benchmarking.
- Covid-19 Grant Controls.

Members Training
During November we ran a free Audit Committee Members training event to provide an overview of the role of the Audit Committee as well as 'hot topics' that should be on Audit Committee radars.

News Roundup
We produce a monthly newsletter that provides information on topical areas of interest for public sector bodies. During the early stages of Covid-19 we increased the frequency of our newsflash to weekly/Fortnightly to provide relevant information.

Innovations and Enhancements to our Audit Process
During this exceptional year, 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.

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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

- With the help of SWAP's two newly appointed Data Analysts, we are looking to include analysis of data as part of our auditing wherever possible. This allows us not only the opportunity to test whole populations of data, but where this is not possible or appropriate, to be able to use data analytics to target our testing in a more effective manner.

- 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.

- Introduced a new one-page audit report, that summarises all the key messages of the audit on one page for ease of consumption as well as increasing impact. Feedback on the report style has again been extremely positive.

- Introduced a new continuous audit planning and risk assessment process.

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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 SWT for the 2020/21 year are as follows:

Performance Target	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion > 90% In progress/Review Not Started	 92% 8% 0%
Customer Satisfaction Questionnaire Feedback Target > 95%	98%

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.

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Summary of Internal Audit Work 2020/21

Audit Type	Audit Area	Qtr	Status	Opinion	1 = Major ⟷ 3 = Minor Recommendation				Comments
					Total	1	2	3	
FINAL									
Governance, Fraud & Corruption	**NEW:** Grant Verification Support Work	1	Final	Advisory	-	-	-	-	-
Governance, Fraud & Corruption	**NEW:** Covid-19 Business Grant Funding Schemes Assurance	2	Final	Advisory	-	-	-	-	Assistance with FRAs for SBGF, RHLGF & LDGF
Governance, Fraud & Corruption	Ethical Governance & Culture	2	Final	Limited	7	0	3	4	
Follow Up	**NEW:** Housing Compliance - Asbestos Management	2	Final	Advisory	-	-	-	-	Reported in September 2020
Governance, Fraud & Corruption	Procurement	2	Final	Limited	7	0	5	2	Reported in December 2020
Operational	DLO External Work - Income	2	Final	Limited	10	1	6	3	Reported in December 2020
Governance, Fraud & Corruption	Performance Management	2	Final	Advisory	-	-	-	-	
Follow-up	Treasury Management Follow Up	3	Final	Advisory	3	0	1	2	Reported in December 2020
Key Financial Control	Payroll System	3	Final	Reasonable	2	0	0	2	
Governance, Fraud & Corruption	**NEW:** Local Restriction Support Grant (LRSG)	3	Final	Advisory	-	-	-	-	

SWAP
INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

Plan Performance 2020/21

Audit Type	Audit Area	Qtr	Status	Opinion	1 = Major	↔		3 = Minor	Comments
					Recommendation				
					Total	1	2	3	
Governance, Fraud & Corruption	NEW: Additional Restriction Support Grant (LRSG)	3	Final	Advisory	-	-	-	-	
ICT	Cyber Security Framework Review	3	Final	Advisory	-	-	-	-	Further details to be provided to members
Governance, Fraud & Corruption	Housing Compliance - Governance and Reporting	3	Final	Reasonable	7	0	2	5	
Key Financial Control	Main Accounting	3	Final	Reasonable	3	0	0	3	
Key Financial Control	Financial Control & Reporting	3	Final	Reasonable	4	0	1	3	
Special Review	NEW: Investigation 2	3	Final	Advisory	0	0	0	0	
Follow-up	Banking Arrangements Follow Up	4	Final	Advisory	1	0	1	0	Reported in December 2020
Special Review	NEW: Special Review 3	4	Final	Advisory	0	0	0	0	Report provided to the Governance Manager.
Governance, Fraud & Corruption	NEW: Baseline of Council Fraud Maturity	4	Final	Advisory	0	0	0	0	
Governance, Fraud & Corruption	ICT Governance & Risk Scope Review	4	Final	Advisory	0	0	0	0	Further details to be provided to members
Governance, Fraud & Corruption	NEW: BEIS Grant Assurance Work	4	Final	Advisory	0	0	0	0	

Plan Performance 2020/21

Audit Type	Audit Area	Qtr	Status	Opinion	1 = Major	⟷		3 = Minor	Comments
					Recommendation				
					Total	1	2	3	
Governance, Fraud & Corruption	**NEW:** Compliance & Enforcement Grant CIA sign off	4	Final	Advisory					
DRAFT									
Key Financial Control	Creditors	3	Draft	Reasonable					
Key Financial Control	Debtors	3	Draft						
Governance, Fraud & Corruption	**NEW:** Fraud Risks – Impact from Covid-19	4	Draft	Reasonable					
Governance, Fraud & Corruption	Project Governance - Firepool	3	Draft	Advisory					
IN PROGRESS									
Special Review	**NEW:** Investigation 1	3	In Progress						
Governance, Fraud & Corruption	Commercial Investment	4	In progress						
DEFERRED OR REMOVED									
Governance, Fraud & Corruption	Fraud Risk Assessment	4		Reviews replaced with: **NEW:** Grant Verification Support Work					

SWAP INTERNAL AUDIT SERVICES Assuring – Improving – Protecting

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Plan Performance 2020/21

Audit Type	Audit Area	Qtr	Status	Opinion	1 = Major ↔ 3 = Minor				Comments
					Recommendation				
					Total	1	2	3	
Follow up	Debtors	1		**NEW:** Covid-19 Business Grant Funding Schemes Assurance **NEW:** Housing Compliance - Asbestos Management follow up **NEW:** Local Restriction Support Grant (LRSG) **NEW:** Additional Restriction Support Grant (LRSG) **NEW:** Investigation 1 **NEW:** Investigation 2 **NEW:** Special Review 3 **NEW:** Baseline of Council Fraud Maturity **NEW:** BEIS Grant Assurance Work **NEW:** Fraud Risks – Impact from Covid-19 **NEW:** Compliance & Enforcement Grant CIA sign off Reviews deferred from 2020-21 Audit plan have been taken forward for consideration and inclusion in 2021-22 Audit Plan. Fraud Risk Assessment to be undertaken as part of 2021-22 Plan.				
Governance, Fraud & Corruption	Delivery of Benefits of Transformation	3							
Follow up	GDPR Information Management Project	4							
Governance, Fraud & Corruption	Risk Management	4							
Governance, Fraud & Corruption	Climate Change	4							
Governance, Fraud & Corruption	Digital Strategy and Transformation	4							
Governance, Fraud & Corruption	People Strategy	4							
Governance, Fraud & Corruption	Recruitment and onboarding	4							
Operational	Homelessness / Homelessness Reduction	4							

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