

Somerset West and Taunton Council

Internal Audit Annual Opinion Report 2021/22

Internal Audit Annual Opinion – 2021/22: ‘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.

- Medium risk rated weaknesses identified in individual audit engagements
- Isolated high risk related weaknesses identified for isolated issues
- No critical risk rated weaknesses identified
- Internal Audit is broadly satisfied with management’s approach to resolving identified issues

The Headlines

	2 Significant Risk identified in year after testing the controls in place. These were in the Corporate Health and Safety audit and Purchasing Cards audit. Further information is contained within the body of this report.
	28 reviews delivered as part of the 2021/22 Internal Audit Plan. Includes assurance, advisory and follow up reviews (23 final, 3 Draft, 2 in progress).
	Internal Audit staff supporting on the preparation work for LGR in Somerset Attending meetings with workstream leads to support in identifying potential areas for audit work. Identifying lessons learnt from previous LGRs and providing advice on workstream delivery.
	Range of innovations and enhancements made to our internal audit process throughout the year. One-page audit report, introduction of Agile auditing and flexible rolling audit plan.

Internal Audit	21/22	20/21
Substantial	3*	0
Reasonable	8*	7
Limited	4*	3
No Assurance	0*	0
Advisory / Follow Up	8*	17**
Agreed Actions		
Priority 1	4	1
Priority 2	30	20
Priority 3	46	32
Total	80	53***

*Final Reports only

** More Advisory Reviews in 2020-21 due to Covid19

*** More advisory reviews 2020/21 would reduce number of recommendations

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.

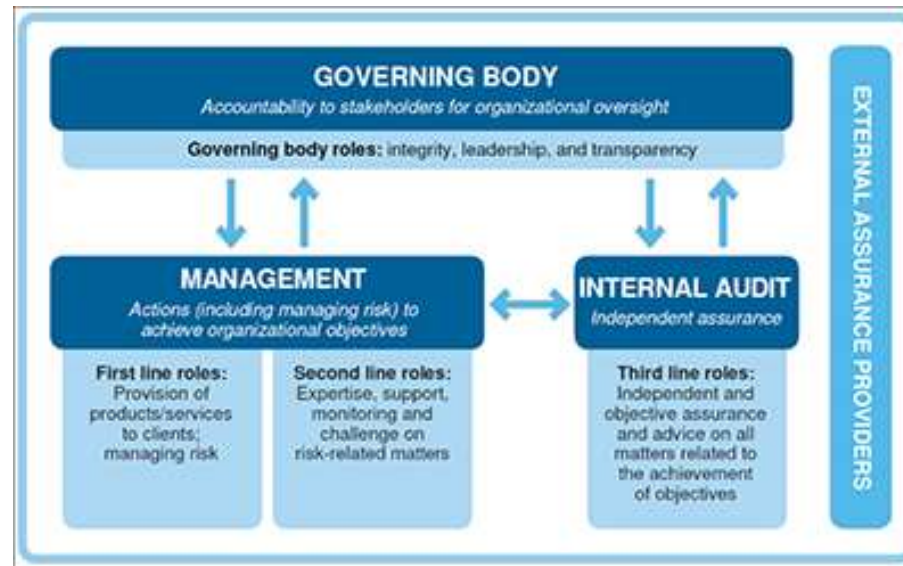


Background

The Internal Audit service for Somerset 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 2021/22 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 2021/22

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 2021/22 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.

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

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 ongoing impact of COVID-19 and Local Government Reorganisation have been agreed throughout the year and that work supports the annual opinion.

The additional audits performed to carry out assurance work on risks associated with Covid-19/LGR are:

- Post payment assurance on COVID-19 grants (ARG & Restart)
- Unitary Preparedness – lessons learnt
- Staff Retention
- ICT & Digital Minimum Viable Products (MVP) – part of LGR

It has been agreed to defer some of the audit work to 2022/23 and this has been reported throughout the year to the Audit, Governance and Standards Committee.

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

Annual 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:

- *Fraud Risk Assessment*
- *Performance Management*
- *Risk Management*
- *ICT Security Policy and Awareness audit*
- *Ethical Governance & Culture Follow Up*
- *Finance key controls (including Housing Benefit, Council Tax & Business Rates and Housing Rents)*
- *Commercial Investment*
- *Health & Safety*

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, and coverage has returned to a level more comparable to pre-pandemic time.

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 it is not possible to cover all key risks in any one year but to provide coverage over the medium term.



Summary of Audit Work 2021/22

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/Issues

The Somerset West and Taunton Risk Register is a live document and subject to change throughout the year as the risk environment that SWT operates in changes. In addition, short time high priority ‘issues’ are also flagged for immediate senior management attention. Therefore, the table below reflects a summary of coverage against shifting priorities throughout the year in terms of corporate risk and issues.

Table Key	Reasonable internal audit coverage 2021-22	Partial internal audit coverage 2021-22	No internal audit coverage 2021-22
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Corporate Risk/Issues	Coverage 2021-22	Planned Coverage 2022-23
CR 02 - Not Achieving Carbon Net Zero by 2030	Reasonable internal audit coverage 2021-22	No internal audit coverage 2021-22
CR 11 - Cyber Security	Reasonable internal audit coverage 2021-22	Reasonable internal audit coverage 2021-22
CR 30 - Financial Sustainability - Income Vulnerability	Partial internal audit coverage 2021-22	Partial internal audit coverage 2021-22
CR 16 - Land Supply/ Unplanned development	No internal audit coverage 2021-22	No internal audit coverage 2021-22
CR 23 - Landlord safety checks	Reasonable internal audit coverage 2021-22	Reasonable internal audit coverage 2021-22
CR 24 - Business Continuity	No internal audit coverage 2021-22	Reasonable internal audit coverage 2021-22
CR 28 - Rough Sleeping and Single Homeless Provision	No internal audit coverage 2021-22	Reasonable internal audit coverage 2021-22
CR 29 - Delay in recycle more project	No internal audit coverage 2021-22	No internal audit coverage 2021-22
CR 30 - Unitary Council	Partial internal audit coverage 2021-22	Partial internal audit coverage 2021-22
CR 31 - HRA Financial Sustainability	Partial internal audit coverage 2021-22	Partial internal audit coverage 2021-22
CR 32 - Data Breach with Paper Records	No internal audit coverage 2021-22	Partial internal audit coverage 2021-22
CI 14 - Health & Safety	Reasonable internal audit coverage 2021-22	Partial internal audit coverage 2021-22



Summary of Audit Work 2021/22

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
<p>Corporate Health and Safety Risk: The Council does not have sufficient arrangements in place to identify, monitor and mitigate against health and safety risks that could cause staff, stakeholders and public harm – leading to subsequent legal, financial and reputational damage.</p> <p>Purchasing Cards Risk: Purchasing card usage is poorly controlled and monitored, which leads to inappropriate spend against the budget, increasing risk of fraud and reputational damage to the Council.</p>

Summary of Limited Assurance Audits

Audit Name	Risk Rating	Priority Findings		
		1	2	3
Corporate Health & Safety	High	-	3	8
Procurement Cards	High	3	4	-
Data Centre Review	Medium	-	5	2
Material Supplies Management (Stores)	Medium	1	4	-

Note all these audits have been reported throughout 2021-22 to the Audit and Governance Committee.

Summary of Audit Work 2021/22

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

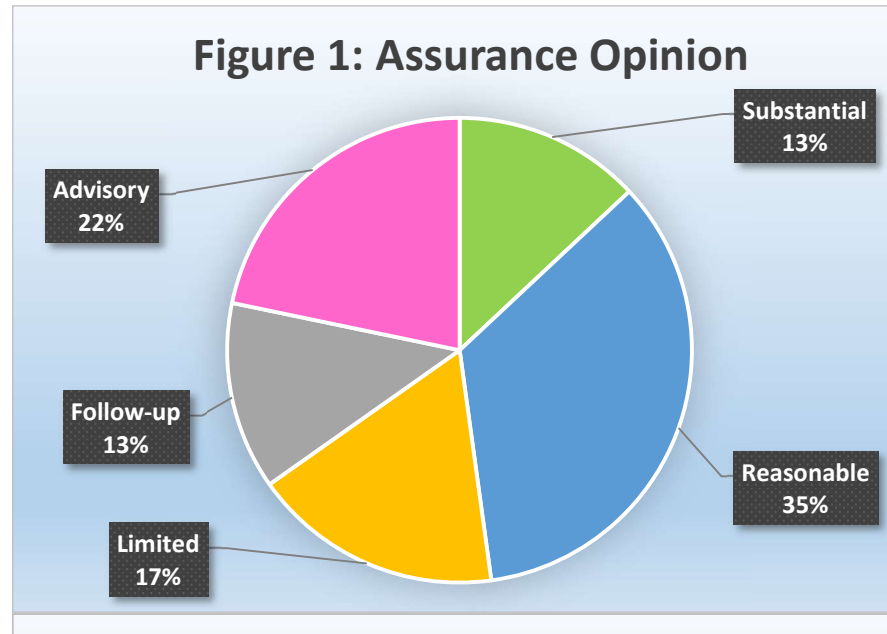


Figure 1 above indicates the spread of assurance opinions across our work during the past year (2021-22). We recognise the openness from Senior Management to identify areas for review where they have some concerns that have resulted in some Limited Assurance reviews.

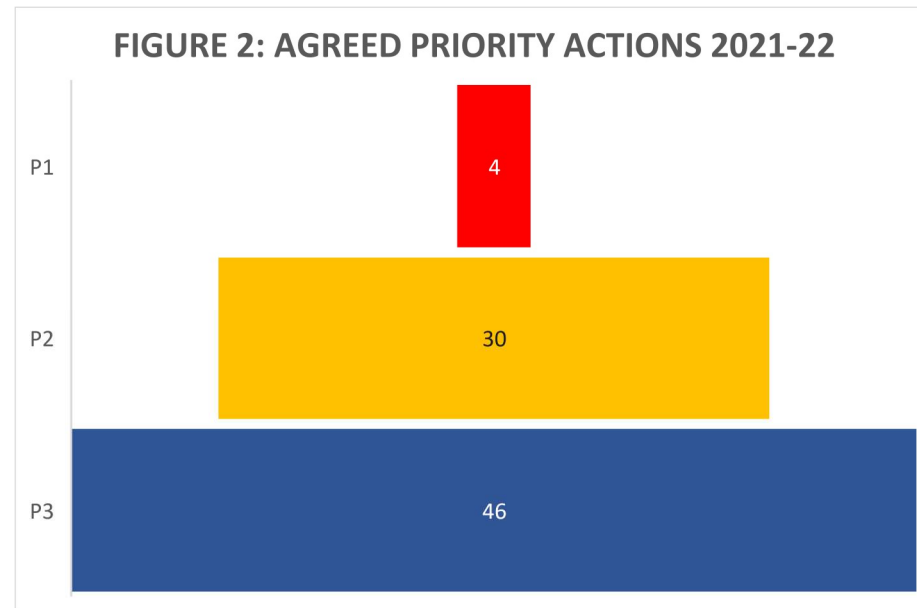
Summary of Audit Work 2021/22

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



Internal Audit will follow up on all recommendations in relation to areas where adverse assurance (No Assurance or Limited Assurance) has been awarded. SWT also monitor the implementation of priority 1 and 2 audit recommendations with progress reported to the Audit Committee.



Plan Performance 2021/22

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 2021/22 year are as follows:

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion > 90%	93%
In progress/Review	7%
Yet to complete	0%
<u>Customer Satisfaction Questionnaire</u> Feedback Target > 95%	99.1%

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 assessed in February 2020 and confirmed that we are in conformance to PSIAS. Our on-going annual self-assessment shows continued conformance.

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.

Summary of Internal Audit Work 2021/22

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Assurance	Commercial Investment	1	Final	Substantial	2	0	0	2	
Assurance	Corporate Health and Safety	1	Final	Limited	11	0	3	8	Reported September 2021
Assurance	North Taunton Woolaway Regeneration	1	Final	Substantial	0	0	0	0	
Assurance	Data Protection Compliance (GDPR)	1	Final	Reasonable	5	-	2	3	
Advisory	Fraud Risk Assessment	2	Final	Advisory	0	0	0	0	
Follow Up	DLO External Work – Income Follow Up	2	Final	Advisory (follow up)	0	0	0	0	Reported December 2021
Assurance	Open Contractor – Revised Grounds Maintenance Arrangements	2	Final	Reasonable	3	0	0	3	
Assurance	Performance Management	2	Final	Substantial	3	0	0	3	
Assurance	Risk Management	2	Final	Reasonable	6	0	2	4	
Assurance - ICT	Data Centre Review	2	Final	Limited	7	0	5	2	Reported December 2021
Follow Up	Procurement Follow-Up	2	Final	Advisory (follow up)	5	0	4	1	Reported December 2021

Plan Performance 2021/22

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Assurance	Business Improvement – Tracking benefits	2	Final	Reasonable	5	-	-	5	
Advisory	Exploratory Work – Tenancy	3	Final	Advisory	0	0	0	0	
Assurance	Housing Benefit	3	Final	Reasonable	2	-	-	2	
Assurance	Council Tax & Business Rates	3	Final	Reasonable	3	-	-	3	
Assurance	Housing Rents	3	Final	Reasonable	7	-	2	5	
Follow Up	Ethical Governance and Culture	3	Final	Follow Up	7	-	2	5	2 P2 and 3 P3 recommendations in Progress. Reported June 2022
Advisory	Carbon Net Zero	3	Final	Advisory	3	-	2	1	
Advisory	NEW: Civica Parameter Testing	4	Final	Advisory	0	0	0	0	
Assurance	NEW: Purchasing Cards	4	Final	Limited	7	3	4	0	High Corporate Risk identified. Reported June 2022
Advisory	Open Contractor – Revised Housing Arrangements	4	Final	Reasonable	0	0	0	0	
ICT	ICT & Digital Minimum Viable Products (MVP) – part of LGR	4	Final	Advisory	0	0	0	0	
Assurance	Material Supplies Management (Stores)	4	Final	Limited	5	1	4	0	Reported June 2022

Plan Performance 2021/22

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
DRAFT									
Assurance	Post payment assurance on COVID-19 grants (ARG & Restart)	4	Draft						
Assurance - ICT	ICT Security Policy & Awareness Audit	3	Draft						
Advisory	NEW: Unitary Preparedness – lessons learnt	4	Drafting						
IN PROGRESS									
Assurance	NEW: Regeneration Projects - Governance	4	In Progress						
Assurance	NEW: Staff Retention	4	In Progress						
Deferred/Dropped									
Assurance - ICT	Incident Management	4	Dropped	Replaced by the ICT & Digital Minimum Viable Products (MVP) – LGR work					