Somerset West and Taunton

Report of Internal Audit Activity

2021-22 Outturn Report June 2022

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

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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 Somerset West and Taunton Council is provided by SWAP Internal Audit Services 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, Governance and Standards 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 Leadership Team. The 2021-22 Audit Plan was reported to the Audit, Governance and Standards Committee and approved at its meeting in March 2021. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

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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

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 in **Appendix A**.

The following table summarised Audits finalised since the previous update in March 2022.

Audit Area	Opinion
NEW: Purchasing Cards	Limited
Housing Rents	Reasonable
Open Contractor – Revised Housing Arrangements	Reasonable
ICT & Digital Minimum Viable Products (MVP) – part of LGR	Advisory
Ethical Governance and Culture	Follow Up
Management of Material Supplies Chains (Stores)	Limited
Business Improvement – Tracking benefits	Reasonable

Appendix C at the end of this report provides the details on the two limited assurance reviews and details of the follow up audit on Ethical Governance & Culture.

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Significant Corporate Risks

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

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 is one final report with significant (High) corporate risks:

- **Pruchasing Cards**
  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.

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 – Limited or No Assurance Opinions

Purchasing Cards – Limited Assurance - April 2022

The Purchasing Cards Audit received a Limited Assurance. A one-page summary of the audit is provided in **Appendix C**.

As a result of the findings in this audit, we have concluded the review and agreed actions with management for prompt implementation that will mitigate against the risks. We are also undertaking a separate review of the transactions recorded on Purchasing Cards that will help to support in identifying any potential erroneous expenditure that may have occurred as a result of the weaknesses identified within the control framework. This work will be included as a separate line in the SWT 2022/23 audit plan.

Management of Material Supplies Chains – Limited Assurance – May 2022
Originally intended as a wider scope audit, early identification of a number of fundamental gaps in the control framework resulted in us pausing the wider scope and reporting on initial findings early for management to identify and implement actions in a timely manner. A one-page summary of the audit is provided in **Appendix C**.

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SWAP INTERNAL AUDIT SERVICES
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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 25 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective performance results for Somerset West and Taunton 2021-22 are currently:

Performance Target	Target Year End	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion In progress Yet to complete	>90%	93% 7% 0%
Quality of Audit Work Customer Satisfaction Questionnaire	>95%	99.1%
Outcomes from Audit Work Value to the Organisation *(client view of whether our audit work met or exceeded expectations, in terms of value to their area)*	>95%	100%

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We keep our audit plans under regular review so as to ensure that we are auditing the right things at the right time. Audit Plans are undertaken on a rolling quarterly basis.

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 previous update. There are also some required/requested timing changes of reviews which would be separately identified if considered to be significant.

Our rolling plans are agreed with the Senior Leadership Team quarterly from the list of unscheduled audit areas (brought to this Committee) that constitutes the rolling Audit Plan. Members of the Audit Committee are welcome to identify area where they need assurance for priority work to assist in their role with oversight of governance, risk and control.

Revised Audit Plan	Agreed Change
NEW: ICT & Digital Minimum Viable Products (MVP)	Incident Management replaced with ICT & Digital Minimum Viable Products. A collective work to support the Unitary arrangements.
Incident Management	

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Assurance Definitions

No	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.
Limited	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.
Reasonable	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.
Substantial	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.
Non-Opinion/Advisory	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
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.

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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

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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	-	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	-	Reported June 2022

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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					

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Purchasing Cards – Final Report – April 2022

Somerset West and Taunton

SWAP INTERNAL AUDIT SERVICES — Helping Organisations to Succeed

Audit Objective — To provide assurance that purchasing cards are issued according to need and card usage is appropriate and in accordance with council policy.

Assurance Opinion

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.

Number of Actions

Priority	Number
Priority 1	3
Priority 2	4
Priority 3	0
Total	7

Risks Reviewed

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.

Assessment

High

Key Findings

Both physical cards and the card details are being shared between colleagues and this has resulted in purchases being made of which the cardholder is not aware. Whilst the Procurement Card Policy does allow for this in certain circumstances this in itself is a control weakness and may be in breach of the card issuer's terms and conditions.

There have been delays in some services providing completed transaction logs and supporting documentation which has resulted in incurred expenditure not being reflected in the monthly budget monitoring reports. In addition, VAT receipts are not being provided to support all purchases made resulting in the Council not being able to recover VAT for some high-value purchases.

Non-compliance with policy has not been investigated and therefore no subsequent action taken.

The Procurement Card Policy requires updating and should reflect current best-practice, no training is provided to cardholders in line with the Policy and we could not confirm that all cardholders have a signed agreement in place.

Audit Scope

The audit was requested in relation to a Fraud Risk Assessment carried out at SWT in September 2021. A summary of controls assessed is included below:

- Signed agreements/policies are in place that outline the protocols for using a council issued procurement card.
- Cards are set up according to need and have appropriate limits in place.
- Expenditure is subject to independent monitoring to ensure compliance with council rules.
- Non-compliance is investigated and subsequent action taken where necessary.

We reviewed Procurement Card data for the periods 2020-21 and 2021-22.

Next Steps

Further investigatory work will be undertaken where there was little or no evidence that the transactions were legitimate council purposes.

A review of a sample of transaction logs identified that there were multiple purchases with no supporting evidence. In one transaction log, this equated to over £49k of expenditure for one month. We have assessed this as a high corporate risk, given the potential for fraud, inappropriate/uncontrolled spend and loss of recoverable VAT.

NOTE: All recommendations are due for implementation by July 2022, at point of issuing the report as final the AD had confirmed that one of the P1 recommendations was complete. Note in the 2022-23 q1 audit plan further detailed analysis of transactions is being undertaken.

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Material Supplies Management – Draft Report – May 2022

Somerset West and Taunton

SWAP INTERNAL AUDIT SERVICES

Helping Organisations to Succeed

Audit Objective — To establish whether adequate controls are in place for material supplies to ensure that fraud risks are minimised.

Assurance Opinion

Limited / Reasonable / No / Substantial

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.

Number of Actions

Priority	Number
Priority 1	1
Priority 2	4
Priority 3	0
Total	5

Risks Reviewed

Ineffective or inconsistent management controls of stock, security and financial measures may result in the potential for financial loss and the increased risk of fraud.

Assessment

Medium

Key Findings

- There has been no stock-check of stores supplies to confirm actual stock levels for over two years.

- There is no inventory of the stock held on works vans.

- There is no separation of duties in the process for approving orders, updating the stock management system, and authorising the payment for purchased stock.

Audit Scope

We reviewed the effectiveness of the key controls around:

- Security and fraud prevention measures

- Efficiency of the process for stock takes and write offs and disposals.

Other Relevant Information

We were initially asked to conduct a review to evaluate not only the fraud prevention measures but also management of material supply chains. However through discussion with management, we agreed that due to early identification of a number of fundamental gaps in the control framework, as well as other ongoing internal work to review supply chains, we would pause delivery of the wider scope.

This report provides a summary of the high priority issues and actions to be addressed in respect of fraud control. We have also liaised with two other local authorities within the SWAP partnership who have similar stores operations. They have provided an overview of their control frameworks and we have identified elements of recommended best practice within them. The full audit report includes action plan for management to consider when implementing the recommended actions.

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Ethical Governance Follow Up – Final Report – April 2022

Somerset West and Taunton

SWAP INTERNAL AUDIT SERVICES

Follow Up Audit Objective

To provide assurance that agreed actions to mitigate against risk exposure identified within the 2019/20 Limited opinion audit of Ethical Governance report have been implemented.

Follow Up Progress Summary

Priority	Complete	In Progress	Not Started	Summary
Priority 1	0	0	0	0
Priority 2	0	2	0	2
Priority 3	0	3	2*	5
Total	0	5	2	7

Follow Up Assessment

The original audit of Ethical Governance and Culture was completed in February 2021 and received a Limited assurance opinion. The objective of the original audit was to ensure the Council has a robust framework in place which promotes a strong ethical culture, high ethical standards and upholds the values of good governance and behaviours within the organisation.

The follow up audit has found two recommendations have not been started as no longer relevant (in light of upcoming Unitary Council). Five of the actions remain in progress but should be concluded by the end of May 2022

Key Findings

Two Priority 3 actions have not been started. One relates to the creation of an Ethics Policy; the Governance Manager did some research into what other Councils have with regards to an Ethics Policy and discovered much of what should be covered in an 'ethics policy' is included in the Codes of Conduct for both officers and members. The other action is no longer relevant as since the original audit the decision to create a unitary council was taken. This action was concerning ethical guidance for leadership roles and linking the values in the SWT Annual Plan to the Constitution and Codes of Conduct.

Five actions remain in progress, two Priority 2 and three Priority 3. One of the P2 actions concerned Declarations of Interest-these are now electronic records but we were unable to confirm that staff have been reminded of the requirement to declare interests. The first P3 action was agreed in reference to exit interviews, exit Interviews will take place as standard with all leavers. A section will be added to the leaver form that specifically addresses ethics and culture. The second P3 action was made around the induction process and there are now induction pages for new starters with links to HR pages policies and guides. As part of the upgrade in iTrent, new starters will be directed to policies, and which will be included will be decided by the end of March 2022. The third P3 action concerned clarity around DBS requirements, a record of which roles require one and which level is now maintained, and the backlog of checks will be completed by end of March 2022. The recruitment process has also been amended to include DBS requirements.

One P2 recommendation has been mostly complete, this relates to the updating of key policies. However, during our testing we could not find evidence of how the policies have been communicated to staff and therefore there remains a weakness where staff are not fully aware of the Council's expectations on them. It is acknowledged that the policies are now published on the intranet and the Council website and staff will be expected to complete e-learning on them by the end of August 2022.

Follow Up Scope

Testing has been performed in relation to all priority 1 and 2 actions and supporting evidence obtained where possible to support implementation of actions. Follow-up of the priority 3 actions is based on self- assessment by the responsible manager.

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