West Somerset Council

Report of Internal Audit Activity

Plan Progress 2018/19- December 2018

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

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Internal Audit Plan Progress 2018/19

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Follow Up**
- **Non-Opinion / Advisory Reviews**

Role of Internal Audit

The Internal Audit service for West Somerset Council is provided by SWAP Internal Audit Services (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 Committee at its meeting in March 2018.

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
- Follow Up
- Non-Opinion / Advisory Reviews

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team. This year's Audit Plan was reported to this Committee and approved by this Committee at its meeting in March 2018.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

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Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.

➡️ **Internal Audit Work**

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2018/19. 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** of this document.

Since the September 2018 update the following audits have been finalised.

Audit Area	Quarter	Status	Opinion
2018/19			
Supplier Resilience	1	Final	Partial
Insurance Arrangements	2	Final	Reasonable
GDPR – Progress towards compliance	2	Final	Reasonable
2017/18			
Cyber Security	4	Final	Reasonable

Overall good progress is being made on the Audit Plan 2018-19. Current progress as at September can be seen from **Appendix B.** At this point I will need to bring to your attention that we have recently had two IT Audit Specialists leave the organisation and this will have an impact on our ability to delivery all the planned IT work to the originally agreed timescales.

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Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.

Internal Audit Work Continued

Partial Assurance / No Assurance Audits

As agreed with this Committee where a review has a status of 'Final' and has been assessed as 'Partial' or 'No Assurance', I will provide further detail to inform Members of the key issues identified. Since the September 2018 update, there is one Partial Assurance review relating to Supplier Resilience that I need to bring to your attention. Further details can be found within **Appendix C**.

'High' Corporate Risk

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 an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place we re-evaluate the risk based on how effective the control are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'high', I will bring this to your attention.

Since the September 2018 update there are no new 'High' risks that I need to bring to your attention.

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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.

➡ Approved Changes to the Audit Plan

The audit plan for 2018/19 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to West Somerset Council. Members will note that, where necessary, any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

Since the September 2018 update there are a couple of plan changes that I need to bring to your attention:

- Due to the work already scheduled for Transformation the review of the Strategic Framework was dropped to supplement time needed for the Housing Compliance (Fire Safety Management) review and to allow time for us to review Redundancy Payments due the significant value expected to be paid out Circa. £5 Million.

- Homelessness Reduction has also been dropped to free up time for us to assist with the Service Mapping Activity. The Service Mapping Activity aims to ensure that the Council has the necessary knowledge / skills in place to deliver key services come the 1 April due to the volume of staff leaving.

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At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- **Substantial**
- **Reasonable**
- **Partial**
- **No Assurance**
- **Non-Opinion / Advisory**

➡ Audit Framework Definitions

Control Assurance Definitions

Substantial	▲★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲★★☆	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲★☆☆	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
No Assurance	▲☆☆☆	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion/Advice – 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. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

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We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

➡️ Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- 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.

Definitions of Risk

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ⟷ 5 = Minor			Comments
						Recommendation			
						1	2	3	
FINAL									
Governance, Fraud & Corruption	GDPR - Members Awareness Training	1	Final	Non-Opinion	-	-	-	-	
Follow-up audit	Parking Maintenance	1	Final	Non-Opinion	3	0	0	3	
Governance, Fraud & Corruption	Supplier Resilience	1	Final	Partial	6	-	1	5	See Appendix C
Governance, Fraud & Corruption	Insurance Arrangements	2	Final	Reasonable	2	-	2	-	
Governance, Fraud & Corruption	GDPR – Progress towards compliance	2	Final	Reasonable	7	-	-	7	
DRAFT									
Governance, Fraud & Corruption	Healthy Organisation	2-3	Review						
IN PROGRESS									
Transformation	Service Mapping Activity **(NEW)**	3	In progress						See Appendix D
Transformation	New Council Governance	1-4	In Progress						
Transformation	Business Process Re-engineering	1-4	In Progress						See Appendix D
Transformation	Benefits Realisation Management	1-4	In Progress						See Appendix D
Information and Communication Technology	Universal Transaction Portal	1-3	In Progress						

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ⟷ 5 = Minor Recommendation			Comments
						1	2	3	
Information and Communication Technology	Refresh of Network Security Infrastructure	2-3	In Progress						
Information and Communication Technology	Programme of Consolidation	2-4	In Progress						
NOT STARTED									
Key Control Audit	Creditors	3 – 4	Not Started						
Key Control Audit	Debtors	3 – 4	Not Started						
Key Control Audit	Treasury Management	3 – 4	Not Started						
Key Control Audit	Main Accounting	3 – 4	Not Started						
Transformation	Redundancy Payments	4	Not started						
Key Control Audit	System Parameter Testing	4	Not Started						
DROPPED									
Transformation	Strategic Framework	1 to 4	Dropped						Time to Redundancy Payments
Operational	Homelessness Reduction	4	Dropped						Time to Service Mapping Activity

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Audit Assignments completed since the September 2018 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Summary of Audit Findings and High Priority Service Findings

The following information provides a brief summary of each audit review finalised since the last Committee update in September 2018. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review.

Since the September 2018 update there is one Audit I need to bring to your attention, this being in relation to Supplier Resilience.

Governance, Fraud and Corruption Audits

The Governance, Fraud and Corruption Audit process focuses primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will enable SWAP to provide management with assurance that key controls are in place. SWAP will use the findings of these reviews to support the assurance that is required as part of the Council's Annual Governance Statement; it will also provide assurance to the External Auditor on areas that they have requested specific assurance.

Supplier Resilience – Partial Assurance

This audit sought assurance that the Council had effective arrangements in place to assess the business resilience of suppliers and ensure service continuity in the event of supplier failure.

Taunton Deane Borough Council and West Somerset Council have not outsourced many of their services; preferring to work in partnership with other councils or retain the service in-house. They also have very few suppliers that have been contracted to deliver more than one service; this does reduce the risk as the number

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Governance, Fraud and Corruption Audits Continued

of contracts that could impact on service delivery, as a result of supplier failure, is less than for a council with a high number of outsourced services. However, even where the delivery mechanism is outsourced, responsibility for the service remains attached to the local authority. As a result, all contracts require adequate management and monitoring of the supplier, to ensure continuity and satisfactory performance of the services provided.

Sound due diligence processes are crucial. When a council takes on a new supplier it should be thinking beyond the products and services that the contractor is supplying, and its ability to deliver them, and look at whether the contractor itself prioritises business resilience and effectively manages its own risks such as bribery compliance, cyber security, business continuity and data protection. The councils' own business continuity arrangements should also be clear.

We found that some due diligence checks were undertaken at the procurement stage: the financial stability of suppliers was checked upon request, and in some but not all cases relevant insurance and business continuity arrangements were reviewed, and copies of documents obtained. There was, however, no consistency in how these documents were retained and by whom. Changes in personnel had also resulted in historic documentation being lost. There was also no evidence that the criticality of the service to either council was assessed at the procurement stage to determine the level of due diligence to be followed.

In addition, there was limited assurance that the contractors, and the supply chain as a whole, will continue to operate for the foreseeable future as there was little or no evidence of continuity plans being tested, and periodic credit checks being undertaken. Where revised business continuity plans, and updated insurance documentation was provided to the councils, there was no consistency to the retention of this documentation and the responsibility assigned for ensuring they were robust and covered the relevant areas set out within the contract / agreement. Some documents were retained by the Procurement Manager and some by the

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Governance, Fraud and Corruption Audits Continued

manager responsible for the contract.

The Contract Managers, responsible for monitoring the three contracts reviewed, maintained regular dialogue with the supplier in order to monitor the supplier performance and discuss any performance or contract related issues; however, the responsibility for monitoring supplier resilience within this role was not clear.

We have reported that a supplier resilience framework is required and that this should be communicated to all relevant staff. An assessment of their current suppliers to determine their criticality to each council and the delivery of services or policy outcomes should then be undertaken. The level of monitoring undertaken on the supplier needs to be proportionate to the results of this assessment.

A follow-up audit will be carried out in Quarter 1 of 2019/20.

Audit Assignments completed since the September 2018 update:

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Transformation update

In the 2018/19 audit plan we included time to provide assurance on areas that focused on transformation, these included but were not restricted to Business Process Re-engineering (BPR) and Benefits Realisation Management (BRM). Our position statement on BPR issued to Management in April 2018 concluded that we were satisfied the methodology being applied was in line with best practice. A separate position statement on Benefits Realisation Management covering progress made over May/June 2018 raised concerns about:

- The Benefits Realisation Plan being incomplete;
- Due to the lack of up-to-date financial information and the level of uncertainty with costs in each workstream during the design phase we could not provide assurance around the delivery of financial savings at that point in time.

On 12 November 2018 a meeting was held with the Programme Manager who provided us with an update on the progress made with BPR and BRM. Following this meeting we were provided with supporting documentation to back up what was said to us. We make the following observations from our meeting and the documentation provided:

- Business Realisation Management
  We note that there is a Benefits Management Plan in existence, which includes a Benefits Realisation Action Plan. With reference to redundancy costs as at November 2018 we note those for the DLO (£798k) and excluding the DLO (£4.48m). We also acknowledge the one-off funding required for maintaining business as usual service capacity at acceptable levels and observe the New Council costs have increased from £7.141m to £9.528m but appreciate that there is a plan in place to balance the increase in the budget (£2.387m). Management have confirmed that overall the savings target has been revised to £3.5m with an increase in the net pay back period to 2.7 years. Management regard this as acceptable in terms of value for money.

Audit Assignments completed since the September 2018 update:

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Transformation update (continued)

- <u>Business Process Re-engineering</u>
  Management have confirmed that a Process Redesign exercise identified a full list of processes carried out by Taunton Deane and West Somerset Councils. The exercise identified 721 processes of which 432 that were triggered by customers. A further detailed analysis of the list identified 401 processes that would benefit from some redesign of which 254 were aimed to Go Live by April 2019. As at August 2018 thirteen sprints had been completed and a total of fifty-one processes had been reviewed from a Process Redesign Perspective and handed over to the Tech workstream. Twenty-nine were in progress (mostly just waiting to be signed-off). Since then we noted that the review of some processes were hampered by erroneous data which impacted on the efficiency of the Business Analysts, but six more Business Analysts have since been employed to help. These additions together with end user testing to ensure the process works in practice gives us more, but not complete assurance, that Business Process Reengineering is on track.

Finally we have reviewed what Management have identified as the Top Risks with the Transformation Programme and we would concur with them. We note that the four risks identified with an amber RAG rating have permanent solutions in place and the risk identified as 'High volume of staff gaps in new organisation' has a red RAG rating, however strategic solution are in place to forecast a worst-case scenario and build a plan. Internal Audit is also helping with the completion of the Activity Tracker to identify where resource gaps/training needs are required to deliver key processes.

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