

Somerset West and Taunton Council

Report of Internal Audit Activity

2019-20 Outturn Report- June 2020

Contents

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➡	Role of Internal Audit	Page 1
➡	Internal Audit Work Programme	Page 2 – 3
➡	Audit Plan Performance	Page 4
➡	Approved changes to the Audit Plan	Page 5
➡	Appendices:	
	Appendix A – Internal Audit Definitions	Page 6 – 7
	Appendix B – Internal Audit Work Plan 2018/19	Page 8 – 10
	Appendix C – Summary of Relevant Findings	Page 11 – 15

Internal Audit Plan Outturn Report 2019-20

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 Somerset West and Taunton 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 which was approved by the Audit, Governance and Standards Committee at its meeting in March 2020.

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
- Governance Audits
- IT Audits
- Grants
- Other Special or Unplanned Reviews

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 2019-20 Audit Plan was reported to the Shadow Corporate Governance Committee and approved at its meeting in March 2019.

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

Internal Audit Plan Outturn Report 2019-20

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 Programme

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2019/20. 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**.

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 previous update there is one ‘Partial Assurance’ review that I need to bring to your attention, which is Main Accounting. Further information in relation to this audit can be found in **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 controls 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 our previous update there is one ‘High’ risk that I need to bring to your attention:

- **Main Accounting:** *Budget setting processes and budgetary control are not robust, so deviation from planned income and expenditure are not identified and corrected (based on field work Dec – Feb)*

Internal Audit Plan Outturn Report 2019-20

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 Programme Continued

Impact of Covid-19 on Audit Work

2019-20

The majority of audits from the 2019-20 plan have been completed to final or draft report stage. The Covid-19 pandemic has inevitably caused some delay in progress due to availability of Officers dealing with service delivery priorities as well as the impact childcare arrangements will have on our staff. Where draft reports have been issued, we have not actively pursued response in the early phase of Covid-19 lockdown, however we are now working to finalise outstanding audits by the end of quarter one of 2020/21.

2020-21

We recognise the changing risk environment that Covid-19 has and will bring to Somerset West and Taunton. During these unprecedented times, organisations are having to take a wide range of decisions quickly and effectively. Naturally services & processes will need to adapt, staff will be reallocated, and wide-spread remote working will lead to changes in communication and oversight. These changes in working practices will also present financial challenges. Due to this the 2020-21 audit plan will be under constant review and work prioritised on a quarterly basis and therefore there could be more frequent changes to the audit plan. Any changes will be clearly communicated to the Audit Committee with an explanation for the change. I would also just mention to the Audit Committee that due to the Accounts Payable staff being moved to support Business Grant Payments it has not been possible to undertake our follow up on the debtors issues previously reported in March 2020. Time has been set aside to follow up on the debtors issues in early quarter 2 and report back to this Committee.

Internal Audit Plan Outturn Report 2019-20

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

Plan Performance

SWAP now provides the Internal Audit service for 19 Councils, 3 Police Authorities, 3 Office of Police and Crime Commissioners and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both their Board and the Member Meetings. The respective outturn performance results for Somerset West and Taunton Council for the 2019/20 year are as follows;

Performance Target	Target Year end	Average Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion Fieldwork complete awaiting report In progress Not Started</p>	>90%	85% 7% 8% 0%
<p><u>Quality of Audit Work</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p>	>95%	100%
<p><u>Outcomes from Audit Work</u> 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%	100%

Internal Audit Plan Outturn Report 2019-20

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

Approved changes to the Audit Plan 2019-20

The audit plan for 2019/20 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 Somerset West and Taunton Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Manager and the Section 151 Officer.

There is one change to make the Audit Committee aware of in terms of moving the Transformation Benefit Realisation audit from the 2019-20 to the 2020-21 Audit Plan. The Transformation Benefit Realisation Audit was due to commence in March 2020 but due to Covid-19 we did not start this piece of work. Our focus at the end of March and April was completing work in progress and supporting Somerset West and Taunton wherever possible, mainly around Business Support Grants. Certain aspects of this audit were covered under the Transformation Lessons Learned work providing some assurance in this area. However, as this is such an important area, we propose ensuring this is covered in the 2020-21 audit plan.

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	<p>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.</p>
Reasonable	<p>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.</p>
Partial	<p>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.</p>
None	<p>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.</p>

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. 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.

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.

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.

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 unit’s business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Findings that require attention.

Definitions of Risk

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.

Summary of Significant Findings

APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Follow Up	Housing - Fire Safety Management Follow Up	1	Final	Follow up (Advisory)	9	4	3	2	-
Follow Up	Supplier Resilience Follow-Up	1	Final	Follow up (Advisory)	6	0	1	5	-
ICT Audit	Migration and integration of key systems for Single Authority (Creditors, Debtors GL)	1	Final	Reasonable	2	0	1	1	-
Follow Up	HO - New Council Governance Follow Up	1	Final	Follow up (Advisory)	4	-	4	-	-
Follow Up	Bereavement Service Follow Up	2	Final	Follow up (Advisory)	5	0	2	3	-
Key Control	Payroll System	2	Final	Partial	5	0	0	5	-
ICT Audit	Information Management Project	2	Final	Partial	6	1	4	1	-
Governance, Fraud & Corruption	Transformation - Lesson Learned	2	Final	Advisory	0	0	0	0	-
Key Control	Housing Benefits	3	Final	Reasonable	2	0	0	2	-
Key Control	Council Tax/NDR	3	Final	Reasonable	2	0	0	2	-
Key Control	Banking arrangements	3	Final	Partial	5	0	1	4	-
Key Control	Debtors	3	Final	Partial	4	2	2	0	-

Summary of Significant Findings

APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Key Control	Treasury Management	3	Final	Partial	3	0	1	2	-
Key Control	Main Accounting, including budget responsibility	3	Final	Partial	5	1	3	1	-
Special Investigation	Whistleblowing Allegation – Housing	3	Final	Advisory	0	0	0	0	-
Key Control	System Parameter testing Civica	4	Final	Advisory	0	0	0	0	-
Key Control	Housing Rents	3	Final	Advisory	4	0	0	4	Slightly reduced scope due to Covid-19
Governance, Fraud & Corruption	Business Continuity Planning (includes links to DR)	4	Final	Reasonable	4	0	1	3	-
Governance, Fraud & Corruption	Business Grant Support work	4	Final	Advisory	0	0	0	0	-
DRAFT									
Key Control	Creditors	3	Draft						
Governance, Fraud & Corruption	Financial Resilience	3	Discussion Document						
Governance, Fraud & Corruption	Transition Arrangements	4	Review						
Operational	Housing - Asbestos Management	4	Discussion Document						-

Summary of Significant Findings

APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Operational	Building Control Partnership	4	Review						Slightly reduced scope due to Covid-19
IN PROGRESS									
Governance, Fraud & Corruption	Commercial Investments and Income generation strategies	4	In Progress						
Governance, Fraud & Corruption	Risk Management	4	In Progress						
DROPPED									
Governance, Fraud & Corruption	Consultancy Expenditure VFM	2							Replaced by Transformation lessons learned
Governance, Fraud & Corruption	Performance Management	4							Replaced by Whistleblowing Allegation
Governance, Fraud & Corruption	Transformation: Benefits Realisation	4							Replaced by Business Support Grant Advisory work. Benefit Realisation work to be covered in 2020-21 work.

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

Summary of Audit Findings and High Priority Service Finding

The following information provides a summary of each audit review finalised since the last Committee update in March 2020. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review. Since the March 2020 update there is one Partial Assurance audit opinion that I need to bring to your attention.

Key Financial Controls

Key Control Audits are completed as an assessment of the Council's financial control environment. It is essential that all key controls are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control. Financial controls underpin the statement of accounts.

Main Accounting

The purpose of the audit was to review the key controls to give assurance that the financial records are complete and accurate. Our review of Main Accounting has highlighted a significant weakness with corporate budget monitoring which has contributed to an increased risk of financial inaccuracies at the Council. The responsibility for monitoring the budgets and identifying variances has been devolved to individual budget holders who are responsible for reporting variances to the Finance Specialists every two months. However, the number of responses received by the Finance Specialists is low and while high risk areas are checked by the Finance Specialists the medium and low risk areas are not and therefore there is a risk that variances in these areas are not identified at the earliest opportunity.

In addition, weaknesses have also been identified in relation to the reconciliation of information from the Open Contractor (OC) system used by the DLO to record the work they undertake. Without assurance that all income and expenditure has been correctly posted into the finance system there are concerns around the accuracy of

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

Key Control Audits Continued

finance reporting and the ability of the council to raise invoices for all debts owed. Concerns around the value of invoices raised from jobs completed on OC have been raised in the Debtors audit this year and the failure to complete the reconciliations between the systems means that it is not possible to confirm exactly where the issue is occurring in the process without further work being undertaken.

Two other areas of weakness have also been identified this year, the process of reconciling control accounts is being completed but they have so far been unable to reconcile them completely for Council Tax NNDR and IBS Debtors due to internal transfers occurring on the Civica system that they are trying to reconcile to. The other area is the opening balances which have not been updated to match the figures reported in the final accounts that were signed off for this year. Unless this is completed the closing of accounts at year end will be more difficult or the incorrect figures will be reported. Due to the issues with the budget monitoring and the Open Contractor reconciliation we can only provide partial assurance.

Main Accounting - Priority 1 and 2 recommendations

Priority Score	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
P1.	Budget holders not managing their budgets and possibly not reporting variances.	Insufficient budget monitoring by the budget holders can lead to big variances and be a financial risk to the Council.	We recommend that: a) That the Finance Business Partner investigates gaps in budget holder engagement and reports to SMT, and ensures that a risk-based review is undertaken where budget holders fail to report and advice given to the S151	a) The budget monitoring process and timetable for 2020/21 is under review, with the aim of implementing more frequent monthly reporting. This strengthening of control and reporting will impact on time requirements for both budget managers and finance officers.	30/06/20

Summary of Significant Findings

APPENDIX C

Priority Score	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
			<p>Officer and SMT of key financial control risks/issues requiring attention.</p> <p>b) SMT/Directors ensure full engagement and compliance of budget holders within their areas to ensure budget management and reporting responsibilities are met.</p> <p>c) That the Finance Business Partner ensures finance specialists undertake a regular critical review of larger variances and appropriately challenge the accuracy of reported variances / non-variances.</p>	<p>There is currently insufficient capacity within finance to review high volume budgets every month in lieu of gaps in reporting by budget holders. The Finance Business Partner will ensure riskier budgets are reviewed monthly by finance officers. Gaps in budget holder compliance with reporting requirements will be reported to Directors for action. Finance will undertake a wider review of all non-responses on a quarterly basis to provide assurance key risks and issues are identified.</p> <p>b) Directors will ensure budget holders are clear about their responsibilities and comply with reporting requirements as set by SMT and the S151 Officer.</p> <p>c) The Finance Business Partner will ensure finance specialists undertake a regular critical review of larger variances and appropriately challenge the accuracy of reported variances /</p>	

Summary of Significant Findings

APPENDIX C

Priority Score	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
				non-variances on a quarterly basis.	
P2.	<p>To date, the service has not identified a suitable procedure for reconciling the data from Open Contractor to E5 to confirm it has all been correctly imported.</p> <p>No reconciliations of the Open Contractor system to E5 have been undertaken since November 2018 and a recommendation was also made in the previous audit regarding this.</p>	Invoices and costs not transferred from OC to E5 resulting in loss of income and incorrect financial reporting.	We recommend that the Finance Business Partner ensures that a process to reconcile the OC system to the General Ledger is developed and a procedure written.	The Finance Business Partner will ensure the income/business support team and finance work together to ensure that the correct reconciliations are undertaken and that procedure notes are created.	31/03/20
P2.	There have also been issues with the codes being used within Open Contractor which has led to the finance team having to insert the correct codes into the system and journal	Invoices and costs not transferred from OC to E5 resulting in loss of income and incorrect financial reporting.	We also recommend that the Finance Business Partner ensures that the OC codes are amended to ensure they post to the correct location on import.	Agreed - work is currently underway to substantially update the coding structure in E5 to support greater control and granularity of reporting in future. The Council has engaged additional financial capacity to progress these improvements with our consultant working with the	31/03/20

Summary of Significant Findings

APPENDIX C

Priority Score	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
	everything to the right place. This did not happen until November 2019.			Systems Project Manager and finance specialists to progress the design and implementation. This work will also include the feeder systems to ensure the codes are up to date and posting to the correct locations going forwards.	
P2.	The 2019/20 Opening balances on E5 do not agree with the previous 2018/19 year-end closing balances.	Incorrect financial reporting at year end.	We recommend that the Finance Business Partner ensures work is completed promptly to confirm that the E5 system is updated to show the correct opening balances, and ensures a checking process is implemented following approval of the final accounts each year to ensure they have been correctly updated.	Agreed – this action is now complete as at 9 March 2020, with opening balances now fully reconciled. Added a check to the closedown processes to check they are correct for future years going forward.	Completed 09/03/20