



SWAP
INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

Somerset West and Taunton Council

Report of Internal Audit Activity

Annual Opinion Report- 2019/20 – June 2020

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



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.
 - 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.

Summary

Three lines of defence

To ensure the effectiveness of an organisation's risk management framework, the board and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line of defence – functions that own and manage risk.
- the second line of defence – functions that oversee or specialise in risk management, compliance.
- the third line of defence – 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. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of our work against the 2019/20 Internal Audit Plan. The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

The Three Lines of Defence Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

I have considered the balance of audit work in 2019/20 and the assurance levels provided, profile of each audit and outcomes together with the response from Senior Management and offer '**Partial Assurance**' in respect of the areas reviewed during the year, as some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

This Annual Report gives the opinion of the Assistant Director (Head of Internal Audit) on the adequacy and effectiveness of governance and risk management and control within Somerset West and Taunton Council. Internal Audit has not reviewed all risks and assurances relating to Somerset West and Taunton Council and cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan at **Appendix B**, and as such it is one source of assurance on the adequacy of the internal control environment.

The Annual Opinion is made based on the following sources of information:

- Completed audits (Final & Draft - during the year 2019/20) which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regs.
- Observations from consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Significant/material risk where management has not accepted the need for mitigating action.
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.
- Assurances from other providers, including third parties, regulator reports etc.

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion Continued

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 and the assurance mapping records the team maintain). The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

In the revised 2019/20 audit plan for Somerset West and Taunton Council there were 26 reviews to be delivered. In agreement with management, and previously reported to this Committee, some reviews were 'exchanged' or 'removed' as the need to respond to new and emerging risks was identified. Change can be seen from **Appendix B**.

Eighteen audits have been completed to final report stage. Of these, three (22%) were reasonable assurance; six (33%) were Partial Assurance; four (22%) Advisory and four (22%) were follow up reviews on previous areas of weakness identified in the 2018-19 Audit Plan. There are a further three reviews at draft report where an opinion has been confirmed from our work and I have considered these areas in forming my overall opinion.

COVID 19 has disrupted the delivery of the 2019-20 Internal Audit Plan in the final few weeks of the financial year but I do not consider this impact significant on our work when forming the 2019-20 Annual Internal Audit Opinion. It is recognised emergency measures often bypassing standard control have been implemented but this will have a greater impact on 2020-21.

Summary of Audit Work 2019/20

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Special Reviews
- Follow-up



Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits agreed for inclusion in the Annual Audit Plan 2019/20 and the final outturn for the financial year. In total, 26 will be delivered. 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.

Of the 26 reviews in the revised 2019/20 audit plan, they are broken down as follows:

Type of audit	2019-20 original plan	2019-20 revised plan
Operational Audits	2	2
Governance, Fraud & Corruption	8	7
Special Investigation	0	1
Key Control	10	10
Follow-up	4	4
ICT Audits	2	2
TOTAL	26	26

As would be expected some audits were 'exchanged' or 'removed' as the need to respond to changes and emerging risks that arose during the year.

Summary of Audit Work 2019/20

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 & Partial Assurance Audits

We provide a definition of the three Risk Levels applied within audit reports under **Appendix A**. For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

Review/Risks	Auditors Assessment
Debtors (Nov – Jan) - <i>The Authority suffers financial loss, as a result of income not being collected in full or not being subject to appropriate monitoring.</i>	High
Main Accounting (Dec – Feb) - <i>Budget setting processes and budgetary control are not robust, so deviation from planned income and expenditure are not identified and corrected</i>	High
Information Management (The Council fails to manage its data leading to non-compliance with Data Protection Act (2018) and GDPR leading to financial and reputational damage.	High

Summary of Partial Assurance Audits

The following audits received a Partial assurance opinion in respect of their control environments in 2019/20.

Internal Audit Annual Opinion 2019/20

Assurance Definitions

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.*

Follow-up reviews are undertaken where a previous Partial or No Assurance opinion has been given. Follow up reviews are usually undertaken within 6 months. The adjacent table shows the outstanding recommendations as the point of undertaking the work.



Significant Corporate Risks & Partial Assurance Audits Continued

Audit Name	Priority Findings		
	1	2	3
Information Project Management	1	4	1
Debtors	2	2	0
Main Accounting	1	3	1
Banking Arrangements	0	1	4
Treasury Management	0	1	2
Payroll	0	0	5

Follow Up Review on 2018-19 areas of weakness

The follow-up audits listed below also helped inform the audit opinion due to the number of outstanding recommendations. We do note that subsequent assurance provided by management regarding further action taken to address areas of weakness.

Audit Name	Priority Findings		
	1	2	3
Housing - Fire Safety Management Follow Up	4	3	2
Supplier Resilience Follow-Up	0	1	5
Bereavement Service Follow Up	0	2	3
HO – New Council Governance Follow -up	0	4	0

Summary of Audit Work 2019/20

SWAP Performance - Summary of Audit Opinions

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

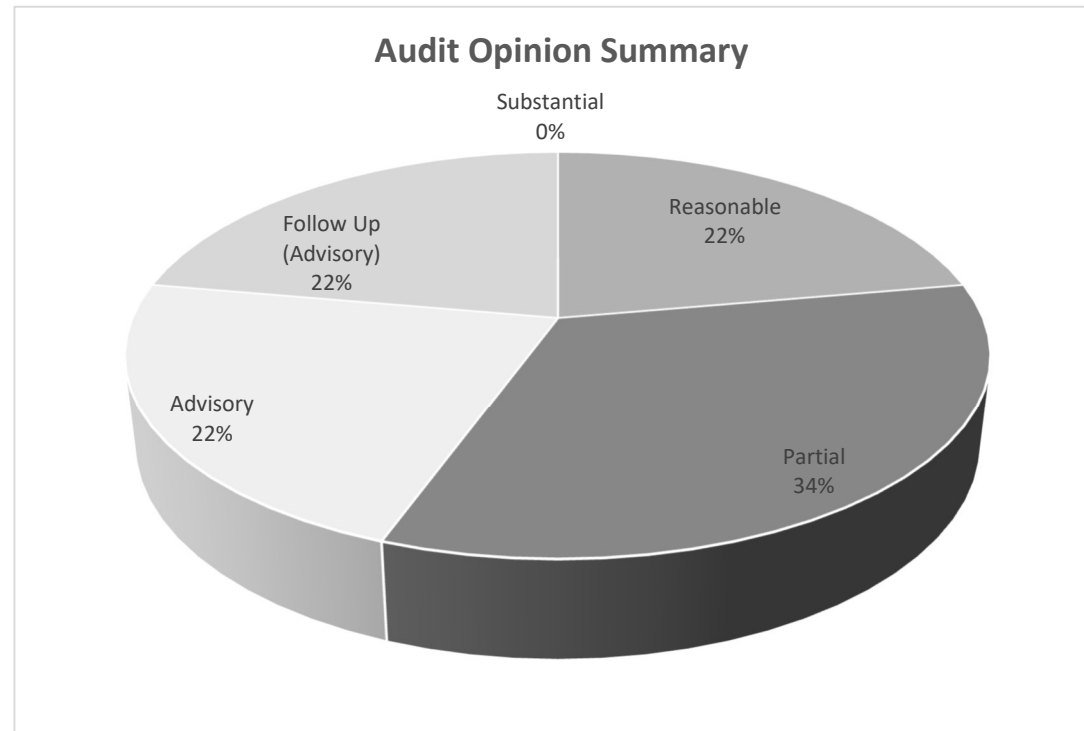
- Substantial
- Reasonable
- Partial
- No Assurance

We also undertake 'Advisory / Non-Opinion' work on a consultancy basis where we have been asked to look at a specific area of potential concern or risk.



Summary of Audit Opinion

A breakdown of the Audit Opinions for the 2019/20 Audits is summarised below. Definitions for each assurance category can be found in [Appendix A](#).



Summary of Audit Work 2019/20

SWAP Performance - Summary of Audit Recommendations by Priority

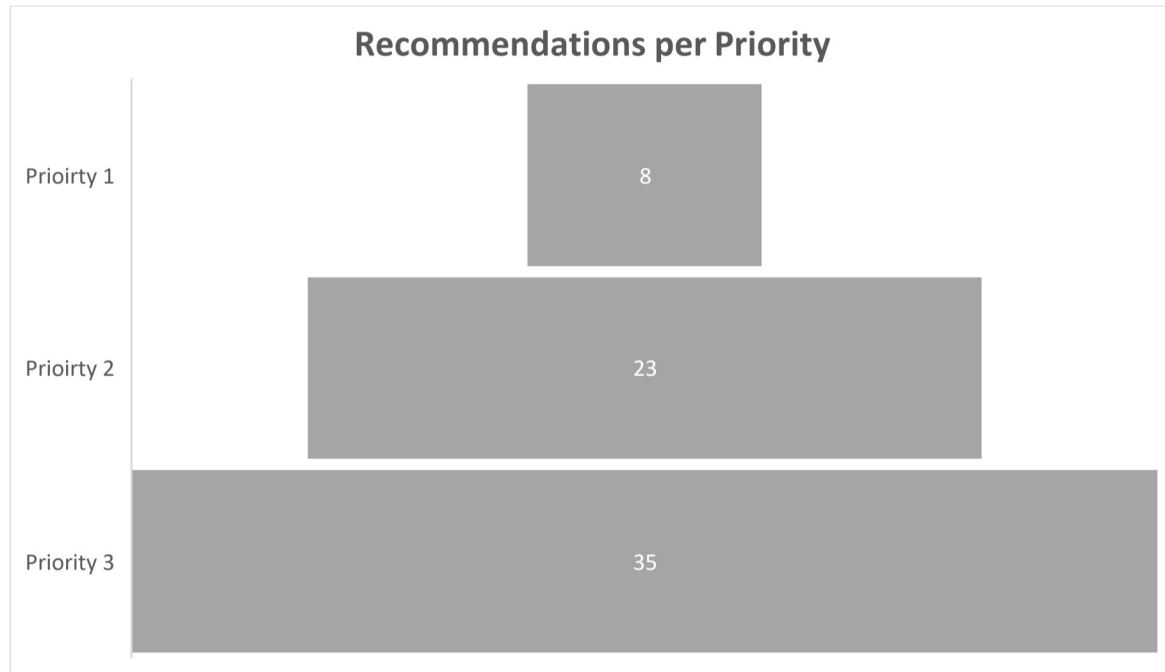


Priority Action Summary

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

Details of priority rating can be found in Appendix A on page 14 & 15.

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. Therefore, recommendations are assessed as to how important they are to the scope of the area audited. Priority 1 recommendations being more important than priority 3. All recommendations as currently contained in **Appendix B** are summarised below.



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

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to 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”.

In addition to audits undertaken in [Appendix B](#), where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where EDDC has requested or participated in enabling us to produce benchmarking reports across the partnership:

- **Fraud Bulletins** – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- **Partners Newsletters** – We produce quarterly partner newsletters that provides information on topical areas of interest for public sector bodies. We have increased the frequency of our newsflash to weekly during Covid-19 to provide relevant information.
- **An Internal Audit View** – These are quarterly newsletters where SWAP and other Local Authority Audit Partnerships convey key audit matters that Local Authorities should be aware.
- **Responsiveness** – we adapt our audit plans to address emerging risks and areas requiring assurance to management, such as the Transformation Lessons learned review and responding to the whistleblowing allegation.

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 Continued

- **Benchmarking and best practice** – we share best practice from our partners wherever possible and undertake benchmarking exercises in a number of audits.
- **Data Analytics** – We are increasing the use of data analytics across all audits to provide a greater level of assurance and insight to trends and themes.

Note: Further areas to add value are contained within our Quality Assurance Improvement Plan and will be rolled out over the next 12 months.

The 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 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	Average Performance
<p><u>Audit Plan – Percentage Progress*</u></p> <p>Final, Draft and Discussion 85%</p> <p>Fieldwork Completed awaiting report 7%</p> <p>In progress 8%</p> <p>Not Started 0%</p>	
<p><u>Quality of Audit Work</u></p> <p>**Customer Satisfaction Questionnaire 100%</p>	

*note some work has taken longer to conclude due to Covid-19 lockdown and changes in priorities and officer availability.

**At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, professionalism and value added.

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 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.

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



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- No Assurance

Substantial	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	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	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	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.

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

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.

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.

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 and the Audit Committee.

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	-

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						-

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.