

North Somerset Council

REPORT TO THE	AUDIT COMMITTEE
DATE OF MEETING:	7TH JULY 2020
SUBJECT OF REPORT:	AUDIT & ASSURANCE ANNUAL REPORT 2019-20
TOWN OR PARISH:	NONE
OFFICER/PRESENTING:	JEFF WRING - AUDIT WEST
KEY DECISION:	NO

RECOMMENDATIONS:

The Audit Committee notes the Internal Audit Annual Report 2019-20 and the opinion on the Internal Control environment.

1. SUMMARY OF REPORT

This is the closing Internal Audit Annual Report to the Committee for the financial year 2019/ 20. Also included is a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

2. POLICY

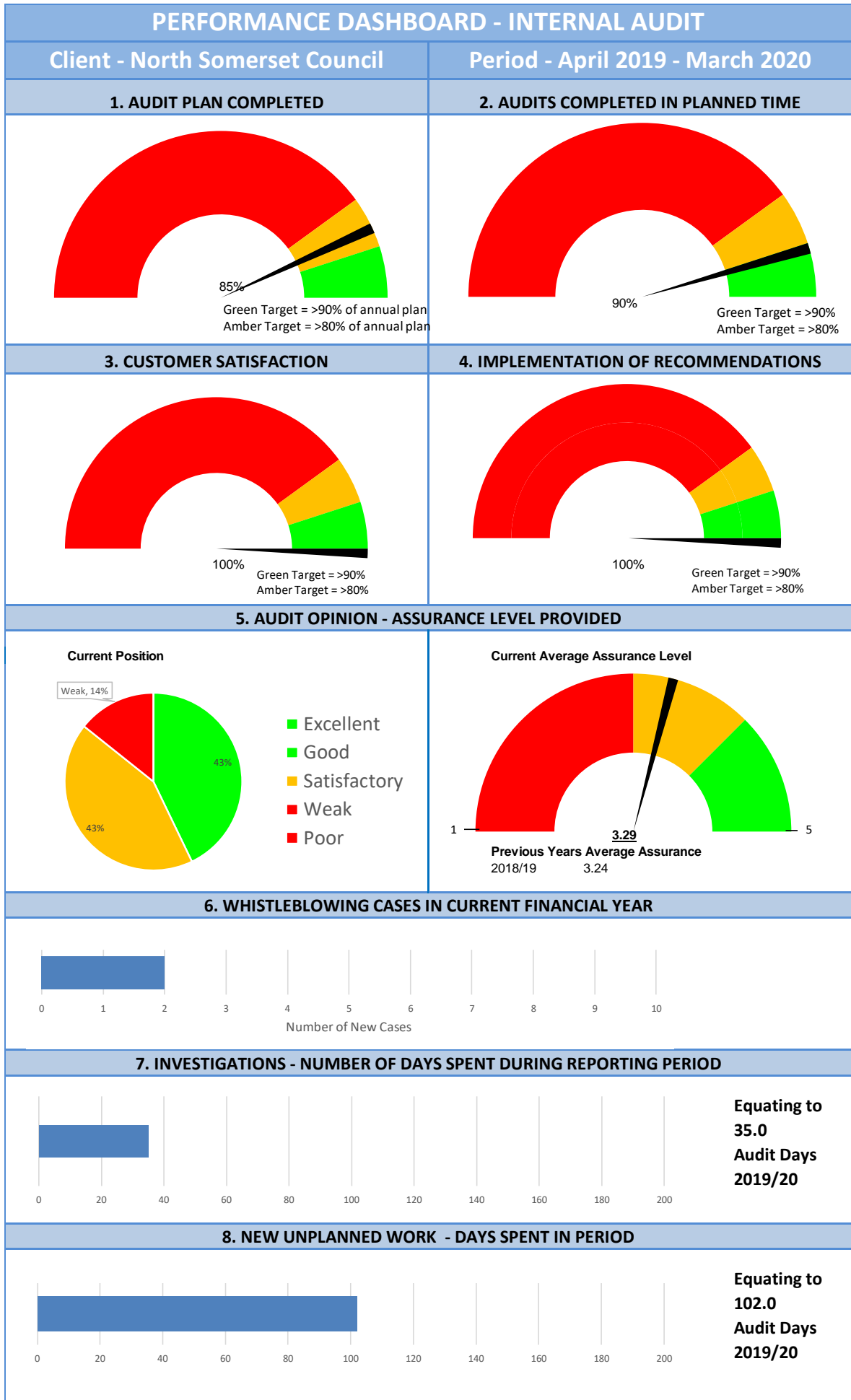
The work of the Internal Audit Service is to provide independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient to ensure delivery of the council's objectives. As part of meeting statutory and professional requirements the Chief Audit Executive is also required to provide an opinion on the council's internal control environment.

3. DETAILS

At its meeting of 25 July 2019, the Audit Committee approved the Annual Audit Assurance Plan for 2019-20. The plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the council's internal control environment.

In determining the scope, depth and breadth of the Audit Assurance Plan, the Audit Committee accepts limitations in coverage and the inherent risks associated with this. As resources reduce, audit coverage is affected and this increases the risk in the level of assurance achieved through delivering the audit plan.

INTERNAL AUDIT PERFORMANCE



AUDIT REVIEWS – POSITION STATEMENT 2019/20

<u>AREA</u>	<u>STATUS</u>	<u>ASSURANCE LEVEL</u>
HR/ PAYROLL	Final	HR - 2/ PAYROLL - 3
GRANT CLAIMS – INTERNAL AUDIT VERIFICATION AND SIGN OFF	Final	N/A - ALL SIGNED OFF
FOLLOW-UP REVIEWS OF 18/19 AUDITS	Final	N/A
CANTEEN AND COMMUNITY MEALS	Final/ Consultation	N/A
DATA ANALYTICS	Final	N/A
IR35 – OFF PAYROLL WORKING RULES	Final	2
MANAGEMENT OF GYPSY AND TRAVELLER SITES	Final	4
PARKS AND STREET SCENE CONTRACT	Final	N/A – ONGOING SUPPORT
INTEGRATED TRANSPORT UNIT	Final/ Position Statement	N/A
REACTIVE AND PLANNED MAINTENANCE CONTRACT	Final	3
MAPPING OF FINANCIAL APPROVAL LEVELS	Final	4
DISCRETIONARY HOUSING PAYMENTS	Final	4
PCI COMPLIANCE	Final	4
FLEXI TIME AND LEAVE – POLICY COMPLIANCE	Final	N/A
CHILDREN’S DIRECT PAYMENTS	Final	3
PUBLIC HEALTH – MENTAL HEALTH STRATEGIC PARTNERSHIP ARRANGEMENTS	Final	3
SCHOOLS – ASSURANCE VISITS	Final	4
SCHOOLS FINANCIAL VALUE STANDARD CERTIFICATION	Final	N/A
HIGHWAYS CONTRACT	Final	3
PROCUREMENT COMPLIANCE	Final/ Consultation	N/A
BARCLAYS.NET AND IPORTAL	Final	4
COMPLIANCE WITH COUNCIL’S CONSTITUTION	Fieldwork	TBC
COMMERCIAL ACTIVITY	Position Statement	N/A
AGILISYS CONTRACT	Cancelled	N/A
CORPORATE COMPLAINTS TRACKER	Final	4
CORPORATE PERFORMANCE REPORTING	Cancelled	N/A
BUILDING COMPLIANCE RESPONSIBILITIES	Final	3
SPECIAL EDUCATIONAL NEEDS AND DISABILITIES	Management request to defer	N/A
CONTRACT MANAGEMENT (P&C)	Draft	3
SCHOOL PLACE PROJECTIONS	Position Statement	N/A
NURSING/ RESIDENTIAL HOMES – ESTABLISHMENT VISITS	Final	3
ADULT CARE – DAY SERVICES	Consultation	N/A
LIQUID LOGIC/ CONTROCC/ AGRESSO – INTERFACE	Management request to defer	N/A
CEMETERIES AND CREMATORIUM CONTRACT	Draft	TBC
SEA FRONT OPERATIONS	Management request to defer	N/A
WASTE MANAGEMENT CONTRACT	Management request to defer	N/A

PERFORMANCE SUMMARY

1) COMPLETION OF THE INTERNAL AUDIT PLAN

- 1.1 The performance dashboard shows that at the end of the financial year 85% of audits were completed. This is slightly ahead of the figures reported to the Audit Committee in the previous year's annual report and meets the ambition set in the six-monthly update report to members.
- 1.2 Previously it has been reported how long-term staff sickness for a key member of staff, as well as a restructure/ recruitment, had impacted upon performance. Whilst there have been further additional unforeseen pressures and additional unplanned work due to Covid-19, it is pleasing that the Audit service still managed to achieve a strong level of performance.
- 1.3 Where management have requested to defer audits in four instances, Members are advised that as part of the agreement to defer, these have subsequently been reincluded in the 2020/ 21 Internal Audit plan. The outcome of audits which are still in fieldwork will also be reported to the Committee during 2020/ 21.
- 1.4 Audit Management would like to formally record their thanks to the new and existing staff for all of their efforts during the past year.

2) AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

- 2.1 Due to the factors previously mentioned relating to overall completion of the plan, extra attention was applied throughout the team in ensuring that the audits which were being completed were achieved within the allocated time.
- 2.2 As a result, 90% of audit reviews completed were done so within their assigned days. The remaining 10% related to minor overruns primarily linked to the appointment of new employees and the time required in familiarising themselves with the way the Audit service and Council operated.
- 2.3 The strategic approach across the partnership remains in ensuring that joint working takes place wherever possible, in order to yield further efficiency benefits across the two authorities through sharing of research, knowledge, workplans and audit findings.

3) CUSTOMER SERVICE

- 3.1 Good customer service and providing value is fundamental to the success of the Partnership. Therefore, this remains an essential performance indicator for Audit West.
- 3.2 Feedback on customer satisfaction is generally sought through talking to lead clients and via quality assurance surveys that are sent to auditees at the end of a review. Whilst we are pleased to report that performance remains at 100%, it is acknowledged that this is based on limited feedback and that there is an opportunity to review the methods used to obtain and record feedback. We will carry out a review later in the year to review alternative options on customer feedback.

4) IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

- 4.1 The Audit service focus their follow-up work on ensuring that critical and high level recommendations have been implemented. This is because the critical and high level recommendations made will have either identified significant risks, or identified improvements that could best help the organisation to achieve its objectives.
- 4.2 We are pleased to report that 100% of critical or high level recommendations were found to have been implemented when followed-up. All other remaining recommendations continue to be followed-up in line with the dates that they are due to be implemented.
- 4.3 Ongoing communication with auditees throughout the review process helps to ensure that recommendations from audits remain relevant and achievable to the business. This engagement also means that audit recommendations proposed within our reviews are accepted and agreed by the respective service managers.

5) ASSURANCE LEVEL PROVIDED

- 5.1 Of the audits completed where an assurance rating has been given, 86% have an opinion of satisfactory to excellent (between 'Level 3' and 'Level 5'). There have been no internal audit reports issued this year where it was considered that the systems of internal control are poor (i.e. 'Level 1').

There are however two reports where we considered the framework to be weak ('Level 2') as follows:

- 5.2 *HR Transactional and Payroll Service* – The HR Transactional element of this review was considered to be weak. This was reported in detail during the six-monthly update report to the Audit Committee where the following key control issues were considered to be ineffective:

i) Issues/ errors are identified and resolved in a timely manner; Liberata ensures that these are reported to the Client.

ii) There are contingency arrangements in place for HR and Payroll should there be a reduction or change in levels of staffing at any one time.

Following this work, a decision was made by the Council in December 2019 to bring the HR element of the service back in-house under the management of Corporate HR. Therefore, in order to provide further assurance that this area is now working effectively, another audit review of Transactional HR is planned in 2020/ 21.

A separate review of the Payroll Service will also be undertaken to ensure that it is working efficiently and effectively following the separation of the two services.

- 5.3 *IR35 – Off Payroll Working Rules* – IR35 is a tax law which was introduced to stop contractors, who were working under the same or very similar terms as a permanent employee, from taking home more money and paying less tax by being paid through a company. In April 2017, it became the responsibility of the local authority for ensuring IR35 regulations were being complied with correctly, or could otherwise find themselves liable to a fine (as well as retrospective tax and N.I. payments).

From the audit work completed, the Auditors overall conclusion was that there was no overarching responsibility for IR35 off-payroll working. It was also found that there

was not one central point which monitored whether a post is an office holder or invoice employee and the costs they attract. Furthermore, when agency staff are used following the inability to recruit, jobs are not always re-advertised (as per guidance) six months later, and if a mechanism was in place to highlight these contracts it could potentially provide some Value for Money savings for the Council.

Conversations remain ongoing with the Service Lead in this area and recommendations made in the audit report will be followed-up as per agreed timescales.

6) INVESTIGATIONS/ WHISTLEBLOWING & COUNTER FRAUD

- 6.1 The audit service undertook two new investigations during the year, equating to 35 days of activity.
- 6.2 In respect of the first investigation, Internal Audit were contacted by the Integrated Transport Unit (ITU) following some issues that had been identified with a taxi company with whom the council had contracted to provide Home to School Transport. Various issues existed that broadly related to service delivery and professional conduct, which were addressed by colleagues across the council. As part of this overall work, Audit were asked to complete an analysis of invoices and associated data from the taxi company.

Whilst the detailed conclusions from this review are confidential, the summary finding was that any variation in journeys/ amounts charged to that expected was of a negligible amount and was considered due to error rather than anything untoward. The proposed audit plan for 2020/ 21 includes further audit work in this service area in order to provide ongoing assurance to management.

- 6.3 The second investigation relates to a whistle blowing allegation of alleged fraudulent practice. Whilst this allegation was not proven, the audit team are continuing to work with the relevant Service Manager in the Directorate concerned to ensure robust controls are in place to deter and detect misconduct.
- 6.4 During the year, there was also a revision and update of the following areas of fraud prevention strategy and policy:
- Anti-Fraud and Corruption Strategy
 - Whistleblowing Policy
 - Anti-Bribery & Corruption Policy
 - Anti-Money Laundering Policy and Guidance
- 6.5 Fraud Awareness Training was also provided to Audit Committee Members in February 2020 and the intention for 2020/ 21 is to offer this training to all Councillors, as well as undertaking staff training sessions.
- 6.6 There was also a large amount of fraud awareness work undertaken in March 2020 in relation to the emergence of a significant number of frauds and scams around Covid-19. Repeated awareness and guidance was published in the Council's newsletter (The Knowledge), via the Intranet, through targeted communication to local schools and academies, and through conversations, advice and direction directly with service areas.

7) UNPLANNED WORK

7.1 Unplanned work took place across several areas in 2019/ 20, some highlights include the following which are worthy of mention.

7.2 Blue Badges

This work relates to the area of Blue Badges and comes on the back of an extension to the scheme to cover 'hidden disabilities, including autism and mental health conditions.

The purpose of internal audit's work was to ensure that with this new extension to the scheme there continued to be a robust fraud prevention framework in place for the area of Blue Badges. This included providing assurance that there are mechanisms in place for the public to raise concerns of potential fraud, as well as throughout the various teams across the Council that have involvement with the Blue Badge process.

During this work it was also identified that there are additional opportunities for improvement around the Blue Badge process as a whole, and subsequently a full review of this process has been included as part of the 2020/ 21 Internal Audit plan.

7.3 Risk Management

Whilst the Risk Management Strategy was reviewed and updated in 2018/19, significant additional work was requested and undertaken in 2019/20 to refresh the Corporate Risk Register based around the new Corporate Plan.

Further work included briefing and updates to Members, including the Committee on this work and as discussed targeted work will continue in 2020/21.

7.4 Coronavirus

Most of the impacts of Covid-19 will impact on the 2020/21 year which will include some of the areas detailed below, however some work did start in 2019/20.

Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund

Internal Audit have been heavily involved in assisting with a suitable process and controls for Grant Claims which Small Businesses and those in the Retail, Hospitality and Leisure Sector can access through their local Councils. Retrospective work will be completed in 2020/21 as part of a post-verification audit review.

At the time of writing this report, the Council had issued 1,186 payments totalling approximately £14m.

Proactive Audit work has also taken place in respect of the publication of Fraud Alerts, providing advice and assistance to service areas & corporate support, and involvement in the Institute of Internal Auditors 'COVID-19 Forum'.

8) COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 8.1 In December 2017 a report was presented to the Committee on the Public Sector Internal Audit Standards and based on this report the Committee approved an Internal Audit Charter.
- 8.2 The Internal Audit Charter states that Audit West through its engagement lead will report periodically to the Corporate Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards and is being separately reported in the Audit Plan report for information to the Committee. It should be noted that the Internal Audit Charter has been reviewed and minor amendments have been made to update the document.

9) FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

- 9.1 As part of our statutory requirements the Chief Audit Executive is required to give an opinion on the internal control framework. In forming this view, I have considered the work of the Audit & Assurance function as well as other assurances I can rely on and consideration of the wider governance framework and performance of the council.

It is my opinion that at the current time the council's internal control framework and systems to manage risk are reasonable.

- Reasonable assurance can be provided over the council's systems of internal control, helping to ensure corporate priorities can be achieved;
- Agreed policies, Financial Regulations and Contract Standing Orders are broadly being complied with;
- Managers throughout the council are aware of the importance of maintaining adequate and effective governance arrangements;
- Appropriate arrangements are operated to deter and detect fraud and investigations did not identify any systemic failures although individual issues were noted;
- Senior Management - led by the Chief Executive – demonstrate a pro-active approach to the fundamental themes of good governance and risk management;
- There were no fundamental system failures or control breakdowns to business-critical functions. We remain alert however to the improvements needed to Contract Management and more importantly the pandemic outbreak towards the end of the financial year which will significantly impact upon the council operations during 2020/21.

- 9.2 The continued reduction on council budgets places further pressure on all services to respond and manage risk in a proportionate way and the Council's financial position remains very challenging. A robust Internal Audit service is a vital component of the Council's governance systems and provides the third and final line of defence in relation to the internal control framework.
- 9.3 The Audit Committee's support of our work and maintaining effective corporate governance is appreciated and I would like to thank members of the committee for their input and guidance over the year.

10. CONSULTATION

The Annual Report refers to facts and opinions that have been included within individual Audit reports which were distributed to, and agreed with, senior managers. The service meets regularly with the directorates to update them on the audit plan and ensures the plan continues to reflect the risks.

11. FINANCIAL IMPLICATIONS

There are no direct financial implications from this report which is focussed on performance.

12. LEGAL POWERS AND IMPLICATIONS

There are no direct legal implications from this report which is focussed on performance.

13. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

The council faces a wide variety of climate change and environmental impacts whilst delivering its many services to residents, some of which have a direct or indirect financial impact or consequence. There are referenced or noted, where appropriate, throughout the report and associated appendices.

14. RISK MANAGEMENT

Significant risks to the council arising from an ineffective Internal Audit service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit fees and undetected fraud. The Internal Audit Service assists the council in addressing its risk profile. Internal Audit helps by identifying risks, improvement areas and by institutionalising good practice.

15. EQUALITY IMPLICATIONS

Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

16. CORPORATE IMPLICATIONS

Failure to deliver the agreed Annual Assurance Plan may result in an inability to provide adequate assurance to officers, members and the public of the soundness of the council's corporate governance.

17. OPTIONS CONSIDERED

None, this is an annual report.

AUTHORS

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BACKGROUND PAPERS

Annual Audit Assurance Plan 2019/20

Audit Committee July 2019

Audit Committee Annual Report to Council 2019/20

Audit Committee July 2019

Appendix A - Audit Opinion:

Assurance Rating	Opinion
Comprehensive Assurance - Level 5	The systems of internal control are excellent with a number of strengths and comprehensive assurance can be provided over all the areas detailed in the Assurance Summary
Substantial Assurance - Level 4	The systems of internal control are good and substantial assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Reasonable Assurance - Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there is one area detailed in the Assurance Summary which requires improvement and specific recommendations are detailed in the Action Plan
Limited Assurance - Level 2	The systems of internal controls are weak and only limited assurance could be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
No Assurance - Level 1	The systems of internal controls are poor, no assurance can be given and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee