

North Somerset Council

Report to the Audit Committee

Date of Meeting: 28th April 2022

Subject of Report: Audit and Assurance Annual Report 2021-2022

Town or Parish: None

Officer/Member Presenting: Peter Cann, Audit West

Key decision: no

Recommendations

The Audit Committee notes the Internal Audit Annual Report 2021-22 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 2021-22. 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 23 April 2021, the Audit Committee approved the Annual Audit Assurance Plan for 2021-22.

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. The plan was impacted slightly during the year due to the ongoing impacts of Covid-19 and subsequent auditee availability. The Audit Committee have been updated throughout the year on progress.

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 or organisational risks may change dynamically over a year, audit coverage can be affected, and this may impact on the level of assurance achieved through delivering the audit plan.

4. Headline Information for Financial Year 2021/22

The summary position as of 31st March 2022 is as follows:

- Work on the plan is almost finalised and as at the 31st March, approximately 92% of the plan had been complete.
- Unplanned work continued throughout the year with ongoing involvement in Covid-19 Grant Claims including Omicron.
- Two audits were requested to be delayed until 2022/23 by Senior Management in the Place Directorate.
- There have been two audit reports issued where it was considered that the overall systems of internal control provided 'Limited Assurance'.
- The Internal Audit service were involved in four investigations and, in addition, provided significant support with an independent fact-finding review.
- 100% of recommendations due to be implemented in 2021/22 were followed-up by the audit service. Evidence is still awaited in two audit areas to confirm that recommendations made in year have been implemented, whilst one further area had recommendations that were partially implemented.
- A significant amount of fraud prevention work has taken place, including through staff awareness, online training, participation in the National Fraud Initiative and implementing an improved fraud reporting process.
- State of the Internal Control framework is satisfactory, based on our audit opinions. However, this continued to be tempered by remote working as we could not observe normal working practices whilst Covid regulations continued.

1) Significant Issues

Assurance Levels

- 1.1 From the audit reviews completed in the 2021/22 financial year, all but two of the audits completed had an overall audit opinion of satisfactory to excellent (between 'Level 3' and 'Level 5').

There were not any significant control issues identified within internal audit's consultancy, advice, and guidance work.

- 1.2 There were two audit reports issued where it was considered that the overall systems of internal control were weak ('Level 2'). These were in respect of Kewstoke Primary School and ICT – Malware/ Ransomware.

Kewstoke Primary School

- 1.3 Whilst most schools within North Somerset have converted to Academy status there remains a small number of maintained schools, where funding and oversight is through the local authority. Coverage of maintained schools are included within the Council's internal audit plan every year and each individual school is then generally reviewed on a cyclical basis. A review of Kewstoke Primary School was included within the 2021/22 plan on this basis.
- 1.4 The key issue identified during the audit review related to a large projected budget deficit by 2023/24, although it should be noted that the school were aware and had taken action to try and avert this.
Two of the overarching controls reviewed during the audit were also considered to be weak and these were in respect of both Purchasing and Income procedures.
- 1.5 The findings from the review were shared with the Director of Children's Services, the Assistant Director for Education Partnerships and the Head of Strategic Planning and Governance (Education Partnerships) so that they could engage with the school as appropriate.

ICT Malware/ Ransomware

- 1.6 Our evaluation followed the control framework described in the National Cyber Security Centre (NCSC) 'Cyber Essentials' and '10 Steps' guidance, which aims to protect an organisation's IT infrastructure in "cyber space".
- 1.7 Key findings were identified during this review were as follows:
- i) Malware Playbook: The Agilisys Malware Playbook has been in draft form since July 2021. This is an important document since it outlines how Agilisys will respond to a malware being detected in the IT infrastructure. Furthermore, the Malware Playbook is held online and offline copies are not available.
 - ii) Offline backups: The data backups for locally hosted systems at the Town Hall and Castlewood sites are not held offline.
 - iii) Backup Testing: ICT do not regularly exercise system and data restore and recovery. Ad-hoc restore of servers from backup and recovery of files does take place.
 - iv) Corporate Information Security Policy: Whilst the policy has undergone minor updates on an annual basis, a major review of the technical content within the

Corporate Information Security Policy has not been carried out since its creation in 2009.

The Audit report was shared with the Information and ICT Security Manager, Agilisys Governance and Compliance Officer and Council's section 151 Officer.

Investigations & Whistleblowing

- 1.8 There were four main Audit investigations in the 2021-22 financial year as well as significant involvement in a fact-finding review.

Investigations 1 and 2

Two investigations were ongoing during the year, both of which related to suspected Covid-19 grant payment frauds.

These were both referred to the National Investigation Service (NATIS)/ National Anti-Fraud Network (NAFN). Whilst the larger of these two frauds remains as an open investigation with NATIS and the lower value is still under their consideration for investigation, we received confirmation in year that we could also pursue both payments locally. Audit West worked with Liberata to attempt recovery of these funds but, as anticipated, have so far been without success.

We have approached NATIS for an update on their own investigation(s) and will inform the Committee when there is further information to report.

Investigation 3

This related to an allegation that an officer of one of the Council's partner organisations had been overseen looking at inappropriate material and had also sent these images from a North Somerset Council email account to their own personal email account. Internal Audit were asked to investigate this allegation as a matter of urgency, and, upon review, it was confirmed that these allegations were true. The employee concerned subsequently had their employment terminated with the partner organisation.

Investigation 4

An email was received via the Fraud mailbox where an external source alleged that a Council employee had not declared their criminal record. A link to a newspaper article supporting this allegation was provided by the whistleblower.

Internal Audit undertook some background research and ascertained that the person was actually an employee of North Somerset Environment Company (NSEC). The matter was then discussed between Audit and NSC HR as, despite it being an NSEC employee, it was important to understand some base information around the allegation and recruitment process followed. HR then discussed the issue with the Director of NSEC, who in turn had engaged outside legal advice surrounding the situation. Following this, the employee's contract of employment was terminated.

Additional Work

As well as the investigations described above, the Internal Audit service have assisted in an independent review of the issues surrounding the roofing works commissioned at a North Somerset School during the summer of 2021.

The review was commissioned by the Council's Chief Executive following extensive flooding at the school and was led by an independent investigating officer from One West (BANES), with independent consultancy support from the Chairman of the Strategic Schools Forum. The Head of Audit and Assurance also provided technical input and participation at key meetings.

It was found that overall there was a lack of clear ownership and joined up thinking towards the works at the school. Four key themes of causation were identified during the review as follows:

- Resources and Investment
- Timing and Resource Planning
- Relationships and Communications
- Contractor Failings and Contract Management

At the conclusion of the work, several presentation/ feedback sessions were held with the Chief Executive/ One West, followed by similar sessions with Council Directors and Members, and a session with the School.

Counter Fraud

1.9 Regular counter fraud updates have been provided to the Committee throughout the year and a detailed summary of all counter fraud related activity during 2021-22 is presented within a separate paper to this Committee. This covers work completed and progress undertaken by the service, including:

- National Picture and Emerging Risks
- Results from the National Fraud Initiative (NFI)
- Internal Audit Targeted Work and Investigations

1.10 Also contained within the above paper are four appendices, which contain strategy and policy updates as follows:

- Updated Counter Fraud Strategy 2022 – 2024
- Whistle Blowing Policy 2022
- Anti-Money Laundering Policy and Guidance 2022
- Anti-Bribery & Corruption Policy 2022

Unplanned Work

1.11 The service continued to receive requests for unplanned work and, as anticipated, this was mainly in the form of pre- and post-payment assurance work concerning Covid-19 grant funding (including Omicron). Regular updates and informal sessions were provided to the Committee throughout the year in respect of this work.

There was also an ongoing need to assist with non-Covid Grant Funding that required audit review and sign-off. The internal audit service regularly issues reminders to teams to ask for details/ notice of any scheduled funding in advance, however, this is not always received and as such the work is often presented as urgent in nature in order to meet funding deadlines.

2) Completion of Audit Plan

2.1 There were 46 pieces of audit work within the plan. Of the total number of audits:

- 42 Audits had been completed or were at reporting stage
- 1 Audit (Business Rates) was approx. 60% complete and would be carried forward
- 2 Audits have been requested to be postponed into 22/23 (Green Waste/Sea Fronts)
- 1 planned piece of work was superseded by s151 Officer/ Audit Committee Work (Capital Projects)

2021/22 Internal Audit Plan Position Statement

Audit Area	Status	Opinion
Data Analytics	Complete	N/A
National Fraud Initiative	Complete	N/A
Counter Fraud - Knowledge & Training	Complete	N/A
Governance - Annual Governance Statement	Complete	N/A
Governance - Audit Committee, Advice & Guidance	Complete	N/A
Follow-up of Audit Recommendations	Complete	N/A
WECA LGF - Weston Town Centre	Complete	Signed Off
WECA LGF - Foodworks	Complete	Signed Off
WECA LGF - Town Square	Complete	Signed Off
WECA LGF - Metrowest	Complete	Signed Off
Bus Services Operator Grant (BSOG)	Complete	Signed Off
Productivity Challenge Grant – Universal Business Support	Complete	Signed Off
Emergency Active Travel Fund	Complete	Signed Off
Pothole and Highways Grant	Complete	Signed Off
COVID-19 - Pre-payment Assurance	Complete	N/A
COVID-19 - Post-payment Assurance	Complete	N/A
COVID-19 - Governance (Contain Outbreak Management Fund)	Complete	N/A
Payroll	Complete	4
Transactional HR	Complete	N/A
Debt Monitoring	Complete	N/A
Council Tax Payments & Collection	Draft Report Issued	(3)
Business Rates NNDR Income	Approx. 60% Complete	N/A
Major Projects - Capital Recharges	Complete	4
ICT Server Migration	Complete	3
ICT Ransomware	Complete	2
ICT Software Asset Management	Draft Report Issued	(3)
Information Governance - Handling of Post	Draft Report Issued	(3)
Contract Management - Recommissioning Process	Reporting	N/A
Contract Management - Post Procurement Training	Reporting	N/A
New Waste Service – Guidance	Complete	N/A
Monitoring of Mandatory Training	Complete	N/A
Financial Assessments (Non-Residential)	Draft Report Issued	(3)
Interfaces (Liquid Logic/ ContrOCC/ Agresso)	Reporting	N/A
Housing Jigsaw System	Draft Report Issued	(3)
Out of Authority Placements (SEND)	Complete	3
Payments to Childcare Providers	Complete	3
Kewstoke Primary School Assurance Visit	Complete	2
Churchill C of E Primary School Assurance Visit	Draft Report Issued	(4)
SFVS	Complete	N/A
Alternative Provision (VLC)	Complete	3
Green Waste Charging and Income	Deferred to 22/23	N/A
Capital Projects	S151/ Audit Cttee Work	N/A
Climate Change - Corporate Planning	Reporting	N/A
HIF (Housing Infrastructure Fund)	Reporting	N/A
Home to School Transport (inc. Dedicated HTST Grant Funding)	Complete	N/A
Sea Front Concessions	Deferred to 22/23	N/A

2.2 Further information on those items highlighted in the table is provided as follows:

NNDR (Business Rates)

As of the 31st March, this audit was approximately 60% complete and therefore the audit will include some overrun into 22/23. This is due to client availability, whereas a partner client's (Liberata) officers have been impacted due to unforeseen work on Omicron Business Rates, Covid Additional Relief Fund and Council Tax Rebate Scheme, as well as dealing with the Annual Billing cycle.

Green Waste Charging and Income & Sea Front Concessions

The planned audits of Green Waste Charging & Income and Sea Front Concessions were both requested to be deferred by the Place Directorate Leadership Team. This was due to operational pressures throughout the year and officer availability. These included back-officer pressures caused by the ongoing effects of Covid and the HGV driver shortage.

Capital Projects

This planned review was superseded by a distinct piece of work that was completed by the section 151 Officer, along with the Director of Place, on Capital Governance. As agreed with the s151, the work undertaken will be followed-up as part of the 2022/23 internal audit plan.

3) Implementation of Recommendations

- 3.1 The follow-up of recommendations is prioritised 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.
- 3.2 Audit West staff communicate continuously with auditees throughout the review process to ensure that proposed recommendations are understood, are relevant and are achievable to the business. Through following this approach, we can report that 100% of recommendations due to be implemented in 2021/22 were followed-up by the audit service.
- 3.3 Whilst all of the recommendations have been followed up with the officer(s) responsible, we are still awaiting evidence on two audits to confirm implementation.

Audit Name	Recommendations Raised				Recommendation Status	Planned Implementation Date
	High	Medium	Low	Total		
Out of Area Placements (Children)	5	3	1	9	Followed up – Previously agreed by Management but not yet evidenced as implemented.	31/12/2021 (later adjusted to 14/02/22 and now 31/05/22)
ICT Server Migration	2	0	1	3	Followed up -verbal assurance of implementation confirmed/ awaiting documented evidence	28/02/2022
Total	7	3	2	12		

3.4 Detail on those audits with documented evidence outstanding is as follows:

Out of Area Placements (Children)

The officer responsible for implementation was on long term sick leave and has since recently left the Council. Therefore, duty for implementing the recommendations has subsequently been passed to the Service Manager and a meeting was held between Audit and this Manager on the 4th April to discuss the recommendations. An action plan from the service area has since been committed and is expected to be received in May.

ICT Server Migration

In order to be efficient and helpful to the client, follow-up of these recommendations was delayed slightly so that evidence could be sought whilst we were working with the same service area on another ICT audit. At the time of report publication, verbal assurance had been received that recommendations were implemented and we were awaiting documentary confirmation.

3.5 In addition, we also received documented confirmation that partial implementation of recommendations has been made in one further audit:

Audit Name	Recommendations Raised				Recommendation Status	Planned Implementation Date
	High	Medium	Low	Total		
Customer Engagement Routes and Processes	1	5	1	7	Agreed by Management – partial implementation of recommendations confirmed	31/03/2022
Totals	1	5	1	7		

The Audit of Customer Engagement Routes and Process included a high-risk recommendation not yet implemented. This is where it was originally agreed that the service area would review and streamline their customer contact routes to include the possibility of integrating service request applications (for example the Confirm system with the Case Tracker system). However, whilst the service area has now investigated this as agreed, it appears that the cost would be prohibitive at c£10,000 so they are looking at alternative methods to achieve a similar outcome. We will report progress to the Committee during 2022/23.

4) Compliance with Public Sector Internal Audit Standards

- 4.1 In December 2017 a report was presented to the Committee on the Public Sector Internal Audit Standards (PSIAS) and based on this report the Committee approved an Internal Audit Charter.
- 4.2 The Internal Audit Charter states that Audit West through its engagement lead will report periodically to the 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.
- 4.3 A new external assessment of compliance against the PSIAS is required this financial year. Audit West have begun work to evidence conformity and the results of this work and the assessment outcome will be reported to the Audit Committee later in the year.

5) Formal Opinion on the Internal Control Framework

5.1 As part of our statutory requirements, the Head of Audit and Assurance in fulfilling the role of the Council's Chief Internal Auditor/ 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.

As highlighted during previous reports to the Audit Committee since the beginning of the pandemic, we are reporting the state of the internal control framework as satisfactory based on our audit opinions. However, during this period, our opinions have been tempered by remote working as we could not observe normal practices due to Covid-19 and government advice to work from home.

This has continued to be the case throughout most of 2021-22 and coupled with unplanned work relating to Covid-19 Grant Funding, has brought into consideration whether a limited or qualified opinion should be issued as result of changes to the plan. The Institute of Internal Auditors guidance in this respect is that if the Audit Committee has agreed to any amendments to the plan, then there is no need for a limited opinion; the opinion will reflect the work detailed as agreed.

There have been small adjustments to the 2021-22 plan and it is therefore my opinion that, based on the work completed, 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 ongoing challenges impacted upon the council's operations due to Covid-19.

5.2 The ongoing financial challenge, especially within a year dominated by world events including Covid-19, the conflict in Ukraine and the cost-of-living crisis, also places further pressure locally on services to respond and manage risk in a proportionate way. 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.

5.3 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.

6. 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.

7. Financial implications

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

8. Legal powers and implications

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

9. 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.

10. 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.

11. Equality Implications

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

12. 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.

13. Options Considered

None, this is an annual report.

AUTHORS

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BACKGROUND PAPERS

Annual Audit Assurance Plan 2021/22

Audit Committee April 2021

Update Performance Report 2021/22

Audit Committee Sep 2021

Counter Fraud Update Report 2021/22

Audit Committee April 2022

Appendix A – Description of Audit Assurance Ratings and 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