

# **North Somerset Council**

## **Report to the Audit Committee**

**Date of Meeting: 21<sup>st</sup> September 2023**

**Subject of Report: Audit and Assurance – Annual Report 2022-2023 and Update Report 2023-2024**

**Town or Parish: None**

**Officer/Member Presenting: Peter Cann, Audit West**

**Key decision: no**

### **Recommendations**

The Audit Committee notes the Internal Audit Annual Report for 2022-23 and the opinion on the Internal Control environment.

Also provided for information is an update on 2023-24 Internal Audit and associated work.

### **1. Summary of Report**

This is the Internal Audit Annual Report to the Committee for the financial year 2022-23. Included is a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

The second part of this report provides an update on key work undertaken from 1<sup>st</sup> April to 1<sup>st</sup> September 2023-24.

### **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 Head of Audit and Assurance is also required to provide an opinion on the council's internal control environment.

### **3. Details**

At its meeting of 28<sup>th</sup> April 2022, the Audit Committee approved the Annual Audit Assurance Plan for 2022-23. The subsequent plan for 2023-24 was then approved on 9<sup>th</sup> March 2023. This meeting (21<sup>st</sup> September) is the first opportunity to formally report on 2022-23, due to the Local Elections that took place earlier in the year.

The plan(s) form 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 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 2022-23**

The summary position for the financial year 2022-23 was as follows:

- All planned audit reviews have been completed, with just one report remaining in draft whilst a response from management is awaited.
- The Internal Audit service agreed to defer five audits into the 2023-24 plan.
- There were two audit reports issued where it was considered that the overall systems of internal control provided 'Limited Assurance'.
- The Internal Audit service completed one detailed investigation in the year which related to allegations made against an employee.
- An in-depth review of the project management and decision-making process around the council's Garden Waste subscription service was also completed.
- 100% of recommendations due to be implemented in 2022-23 were followed-up by the audit service. Two recommendations made within audit reports were not agreed.
- An external review of conformation against the Public Sector Internal Audit Standards took place and the review awarded Audit West the top rating.
- A large amount of fraud awareness work took place, including through articles in the staff newsletter, online training and introduction of bespoke training videos and participation in the National Fraud Initiative. This awareness work helped lead to an attempted fraud of £58k being prevented.
- The Council's Counter Fraud Strategy, the Whistleblowing policy, the Anti-Money Laundering policy, and the Anti-Bribery and Corruption policy were updated in year.
- The Internal Audit Service assisted in the refresh of the Council's Risk Management Strategy.
- State of the Internal Control framework is satisfactory, based on our audit opinions.

## 1) 2022-23 Significant Issues

### Assurance Levels

- 1.1 From the audit reviews completed in the 2022/23 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 ICT Mobile Devices and Mandatory Training for Staff.

#### ICT Mobile Devices

- 1.3 The key issues identified during the review concerned:
- Approximately 25% of mobile devices were running operating systems which were no longer supported. However, the devices were thin client devices, and the weakness applies to the host operating system which cannot communicate directly with the NSC IT estate.
  - Whilst an Asset Register is in place, details of mobile devices were not always kept up to date and did not always record the asset user.
  - There were no complete records held of lost or stolen devices and therefore we could not provide assurance that appropriate action was taken for missing devices.
- 1.4 Further issues were also identified, relating to the allocation of devices, the need to update policies and procedures, excessive data being used on mobile devices, and IT devices for staff that have left being retained by service areas in some instances.
- 1.5 All recommendations made in the audit were agreed and have since been followed up with management to confirm they have been implemented.

#### Mandatory Training for Staff

- 1.6 Key findings identified during this review were as follows:
- Staff were not completing mandatory training courses within the required timeframes as set out by the Peoples Strategy Board.
  - The Learning Pool system was not accurately and consistently recording the completion dates of users undertaking refresher courses.
  - New starters were completing their 6-month probationary period without completing all of the mandatory training courses.
  - Staff were not automatically prompted by the training system to complete the mandatory training courses, or the refresher courses.
  - Management reports outlining who has completed the mandatory training courses were not produced. As a result, assurance could not be provided that all staff have successfully completed the mandatory training courses.
  - The council was unable to prove that all staff have completed the mandatory training courses, this could expose the council to significant risk and legal consequences.
- 1.7 All recommendations made in the audit were agreed. A new Learning and Development System has subsequently been procured and is expected to launch at the end of October 2023 which should address the key issues identified.

## Garden Waste

- 1.8 Internal Audit were also asked to undertake a detailed review of the project management and decision-making process around the council's Garden Waste subscription service. Audit work in this service area was already planned for 2022/23, however the scope of the planned review changed and the depth of the work increased significantly at the request of Senior Management. This work was completed and reported to the Assistant Director (Neighbourhoods & Transport) and the Council's Section 151 Officer.

## **Investigations & Whistleblowing**

- 1.9 There was one main Audit investigation completed in the 2022-23 financial year.

### Investigation

- 1.10 An investigation was undertaken relating to two allegations within the Place Directorate which related to reported non-compliance with procurement processes. The investigation was completed and concluded that neither of the two allegations were substantiated.
- 1.11 Whilst the allegations were found to be unsubstantiated, opportunities for improvement were identified and subsequently confidential recommendations were made by Internal Audit which related to two key areas, these being Management & Oversight and Systems & Processes/

## **Counter Fraud**

- 1.12 Regular counter fraud updates were provided to the Committee throughout the previous year and a detailed report of all counter fraud related that took place in 2022-23 was presented at the March 2023 Audit Committee. Members are therefore directed to the March report to see a full account of last years fraud prevention work.
- 1.13 Key items of note from the counter fraud activity undertaken in 2022-23 include:
- Results from Data Analytics work.
  - Investigations undertaken (referenced in section 1.9 of this report).
  - An increase in fraud referrals made by the public.
  - New methods used to enable wider fraud awareness across NSC staff.
  - Preventing an attempted fraud of £58,560 by colleagues in Accounts Payable
  - Prevention of a further 'payment request' fraud and subsequent possible compromise of the Council's email system.
  - Review, update and approval of the Council's Counter Fraud Strategy and associated policies, which included:
    - Whistle Blowing Policy
    - Anti-Money Laundering Policy and Guidance
    - Anti-Bribery & Corruption Policy

## **Risk Management**

- 1.14 The Council's Risk Management Strategy was updated in year and approved by the Audit Committee in November 2022. This work is attributed to the Head of Business Insight, Policy and Partnerships, with some input from the Internal Audit service.

## 2) Completion of 2022-23 Internal Audit Plan

- 2.1 There were 48 pieces of audit work within the plan. Of the total number of audits:
- 42 were fully completed.
  - 1 Audit (Information Governance) was in draft, awaiting a management response.
  - 5 Audits have been requested to be postponed into 23/24.

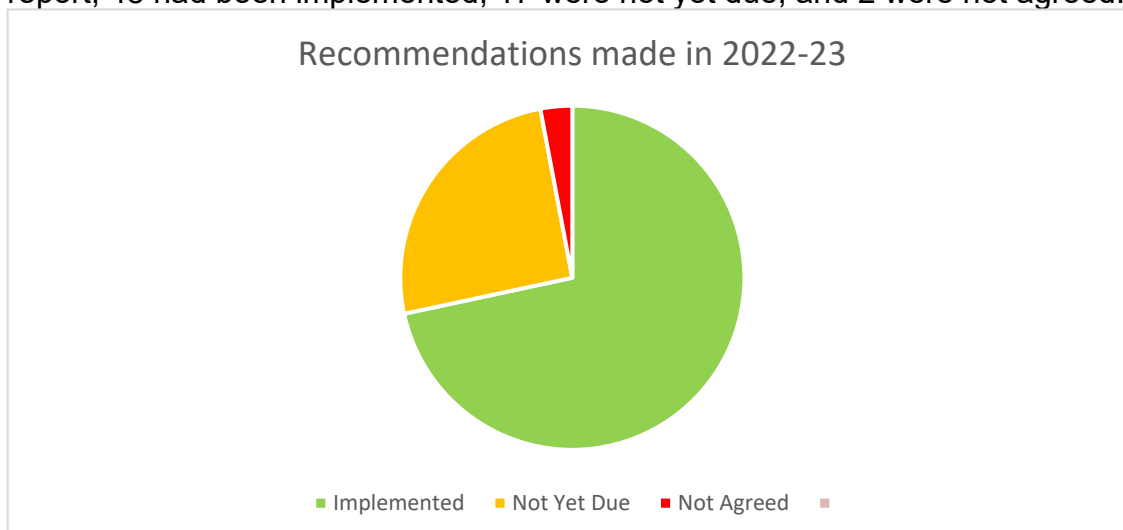
### 2022-23 Internal Audit Plan Final Position Statement

Audit Area	Status	Notes
Fraud - Data Analytics	Complete	Results reported in March 2023 Annual Fraud Report
Fraud - National Fraud Initiative (NFI)	Complete	Spans across 2023-24 - Results will be reported in late 2023
Fraud - Training, Advice and Guidance	Complete	Work reported in Audit Committee update reports throughout year
Governance - Annual Governance Statement	Complete	Statement reported to Audit Committee and included. within Accounts
Governance - Audit Committee, Boards, Advice and Guidance	Complete	Undertaken throughout year
Follow-up of Previous Year Recommendations	Complete	Undertaken throughout year
Weston Town Centre Transport Enhancement Scheme	Complete	Detailed Grant Review – claim validated and signed off
Travel Demand Management Grant	Complete	Detailed Grant Review – claim validated and signed off
High Impact Families / Supporting Families	Complete	Detailed Grant Review – claim validated and signed off
Metro West LGF	Complete	Detailed Grant Review – claim validated and signed off
Weston General Stores	Complete	Detailed Grant Review – claim validated and signed off
Transitions Fund	Complete	Detailed Grant Review – claim validated and signed off
CBSSG (Covid-19 Bus Service Support Grant)	Complete	Detailed Grant Review – claim validated and signed off
DFT Potholes, Highway Maintenance and City Deal	Complete	Detailed Grant Review – claim validated and signed off
Green Homes, Local Authority Delivery Grant	Complete	Detailed Grant Review – claim validated and signed off
Grant Thornton Value for Money Review	Complete	Audit Opinion Level 4 – Substantial Assurance
Budget Setting Process	Complete	Consultation Work – overall conclusion that processes in place are effective
Contracts/ Procurement	Complete	Work included as part of Investigation (refer to section 1.10 of this report)
Agilisys/ Liberata KPI's	Complete	Audit Opinion Level 4 – Substantial Assurance
ICT - Network Access Configuration	Complete	Audit Opinion Level 4 – Substantial Assurance
ICT - 3rd Party Web Based Systems	Complete	Audit Opinion Level 3 – Reasonable Assurance
ICT - Mobile Devices	Complete	Audit Opinion Level 2 – (refer to section 1.3)

Information Governance	Draft Report	Awaiting a response from Management (at the time of this report)
Capital Governance	Deferred	Deferred into 23/24 as agreed with Senior Management
Register of Interests & Declaration of Gifts and Hospitality	Complete	Audit Opinion Level 3 – Reasonable Assurance
Mandatory Training - Implementation of Revised Procedures	Complete	Audit Opinion Level 2 – (refer to section 1.6)
Lone Working	Complete	Audit Opinion Level 3 – Reasonable Assurance
North Somerset Environment Company	Complete	Consultation Work – assistance on embedding robust internal controls
Updates to Payroll System - Series of Audit Work inc. new EV Salary Sacrifice Scheme	Complete	Audit Opinion Level 4 – Substantial Assurance
Garden Waste	Complete	Consultancy/ review work (refer to section 1.8 of this report)
Sea Front Concessions	Deferred	Deferred into 23/24 as agreed with Senior Management
Placemaking/ SEE MONSTER event - Advice and Guidance	Complete	Consultation Work to ensure adequate controls and arrangements are in place
Home to School Transport Service	Complete	Audit Opinion Level 3 – Reasonable Assurance
Fleet Management	Complete	Audit Opinion Level 3 – Reasonable Assurance
Car Parking Income	Deferred	Deferred into 23/24 as agreed with Senior Management
Planning Service	Deferred	Deferred into 23/24 as agreed with Senior Management
Direct Payments	Complete	Audit Opinion Level 4 – Substantial Assurance
Emergency Payments/ Welfare Provision	Complete	Audit Opinion Level 4 – Substantial Assurance
Housing - Homelessness Prevention Service	Complete	Audit Opinion Level 4 – Substantial Assurance
Payments to Foster Carers (In-House)	Complete	Audit Opinion Level 4 – Substantial Assurance
Children's Services Placements - Governance & Procurement Arrangements	Deferred	Deferred into 23/24 with requested slight change of focus
School Assurance Visit - Westhaven School	Complete	Audit Opinion Level 4 – Substantial Assurance
School Assurance Visit - St Joseph's School	Complete	Audit Opinion Level 3 – Reasonable Assurance
School Assurance Visit - Golden Valley School	Complete	Audit Opinion Level 4 – Substantial Assurance
School - Follow-up work	Complete	All actions followed-up and complete/ implemented
School Financial Value Standard	Complete	All SFVS Returns received, analysed and advice given where applicable
School Fund Certificates	Complete	All missing Schools Funds Certificates chased and escalated where necessary
Capita System	Complete	Audit Opinion Level 3 – Reasonable Assurance

### 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 agreed in 2022/23 were found to have been implemented where they were due to be.
- 3.3 In total, 67 recommendations were made in the year. At the time of writing this report, 48 had been implemented, 17 were not yet due, and 2 were not agreed.



- 3.4 Whilst all of the agreed recommendations have been followed up with the officer(s) responsible and were implemented as required in year, there were two recommendations made within audit reports that were not agreed. These were as follows:

#### 3.5 Financial Assessments – Non Residential

The Audit found that service users do not provide a digital or written signature to a form outlining the “Acceptance of liability to pay care charges”. The form also outlines a number of key items, including deprivation of capital, liability for payments and data sharing agreements.

Prior to the pandemic, service users were required to provide a digital signature which was obtained via an iPad. Since the start of the pandemic, financial assessments have been conducted over the telephone and as a result, the team no longer obtains the service user’s signatures.

The legal advice, whilst acknowledging presumed consent, also advises that it would be better to obtain digital confirmation. The Auditor suggested that it would be relatively simply to send out a physical letter to service users asking them to sign and return the letter to confirm acceptance. As a result, it was recommended that letters should be sent to service users requiring them to sign and accept the terms and conditions. Once face to face financial assessments resume, the system of obtaining digital signatures should then be resumed.

This recommendation was not agreed, as outlined in recommendation R5. However, this has been followed-up further with the relevant Service Manager, who has subsequently advised that they are working on implementing an online system. Further, the service will not be going back to a face-to-face visiting system and they now have currently in place a hybrid telephone / postal system which is proving effective and they are able to complete more assessments in a shorter time frame reducing the size of invoices being sent to customers. Once implemented, the online system will also be used to give “pre-service” assessment results. This will hopefully mean more people are aware of their charges up front. This should then further reduce debt and cancelled care packages.

This is considered a pragmatic solution which has been accepted by the Auditor.

### 3.6 Register of Staff Interests & Staff Declaration of Gifts and Hospitality

The Auditor recommended that the Councils Code of Conduct should be reviewed in comparison to other similar authorities and consideration should be given to including areas such as social media. However, the management response received was that the Council already has a separate Social Media Policy and therefore would not be adding specifics on Social Media to the Constitution.

This was deemed by the Auditor to be an acceptable response and no further action is necessary.

## **4) Compliance with Public Sector Internal Audit Standards**

4.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1<sup>st</sup> April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government, Central Government and the NHS.

4.2 The PSIAS was revised wef 1<sup>st</sup> April 2017 and are based on the Institute of Internal Auditors' International Standards. The objectives of the PSIAS are:

- Define the nature of internal auditing within the UK public sector.
- Set basic principles for carrying out internal audit in the public sector.
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

4.3 Each year we will assess ourselves against the required standards and ensure a quality assurance and improvement programme (QA&IP) is in place requiring both internal and external assessment with an external assessment being required once every 5 years.

4.4 An external review of our conformation against these standards took place in late 2022 and the results were received in 2023. The review concluded a rating of 'Generally Conforms', which is the top rating and means that the internal audit service has a charter, and policies and processes that are judged to be in conformance with the PSIAS / Core Principles and Code of Ethics.



## **5) Formal Opinion on the Internal Control Framework (2022-23)**

- 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.
- 5.2 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.
- 5.3 As highlighted during previous reports to the Audit Committee within 2022-23, we are reporting the state of the internal control framework as satisfactory based on our audit opinions.
- 5.4 The Council's internal control framework had not altered significantly from the previous year and it is therefore my opinion that, based on the work completed, the council's internal control framework and systems to manage risk continue to be 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.
  - 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.
- 5.5 Flexible / hybrid working continues and this is now an established method of working in North Somerset Council. There are advantages in providing internal audit services remotely, including saving time to commute to client locations. There are also some disadvantages, for example auditors not being able to observe behaviours and conversations in the workplace which provide a unique insight related to the activity being audited.
- 5.6 The conflict in Ukraine, the related costs in goods and services, and the subsequent cost-of-living crisis continue to place 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.
- 5.7 The Audit Committee's support of our work and maintaining effective corporate governance is appreciated and I would like to thank members that have continued in their role on the committee post-local elections, as well as the independent members for their input and guidance.

## **6. 2023-24 Internal Audit Plan – Key Updates**

- 6.1 Work is well underway on the 2023-24 planned programme of work for Internal Audit. A full progress report will be presented at the November 2023 Audit Committee. There are however key pieces of work that the Committee are asked to note for their immediate information and awareness:

### Employee Whistleblowing Investigation (1)

- 6.2 An allegation was made by an employee that two further employees were conducting a relationship at times when they should have been working.
- 6.3 This matter was investigated by the Head of Audit and Assurance, alongside Human Resources. Detailed findings cannot be provided within this report as it would lead to the identity of at least one of the officers the allegation was made against. However, it can be confirmed that whilst the original allegation could not be fully substantiated, other instances of non-compliance with Council policy were identified in respect of one of the officers and a sanction of a verbal warning was issued to this employee.

### Employee Whistleblowing Referral (2)

- 6.4 An allegation was made by an employee about practices which had taken place within the Children's Social Services Directorate.
- 6.5 Again, due to the nature of the referral, detailed findings cannot be provided within this report. However, it can be confirmed that this was referred onwards to an Assistant Director who then looked into the matter and held necessary discussions with staff. The conclusion was that there were no issues with the practices that had been followed and therefore no further action was required.

### External Referral – Safeguarding Concerns

- 6.6 Through the Fraud/ Whistleblowing email inbox, Internal Audit received a complaint letter addressed to NSC about a named charity. The complaint broadly related to allegations of discrimination, harassment, and poor governance at the charity, and in addition a concern over safeguarding arrangements was raised. The letter also alleged the employment of a known offender.
- 6.7 Whilst individually addressed to NSC, a version of the letter also appeared to have been sent to a range of commissioners and funders of the charity. NSC do not have any contractual arrangement in place with the charity, however the Council have made continued payments grant payments since 2018 to present date.
- 6.8 In agreement with the s151 Officer, the Head of Audit contacted the complainant and advised them that the primary point of contact for investigation, given as the complaint related to a charity and not a direct operation of North Somerset Council, would be the Charity Commission.
- 6.9 They were also requested that if they had concerns about safeguarding, as indicated in the contents of the letter, then to make a detailed referral through the North Somerset Safeguarding Adults Board (NSSAB)

### Clevedon Seafront/ Hill Road Scheme – Review & Lessons Learned

- 6.10 The Internal Audit Service (Audit West) were requested to complete an independent review of the life of the Clevedon Seafront / Hill Road scheme. The purpose of the review was to understand whether there are any areas that North Somerset Council (NSC) can learn from when planning and undertaking similar work in the future.

6.11 Internal Audit were tasked with reviewing five key aspects of this scheme. These included:

- Financial planning and management
- Decision making
- Consultation and engagement
- Roles and responsibilities
- Project Management arrangements

6.12 A report presenting high-level findings went to the Council's Executive on 6<sup>th</sup> September 2023:

<https://n-somerset.moderngov.co.uk/ieListDocuments.aspx?CIId=152&MIId=1066>

6.13 Separately, Detailed improvement actions against key findings have been discussed with the Council's Chief Executive, the Director of Place, and the Director of Corporate Services/ Section 151 Officer. The findings of this report will be developed into a detailed action plan which will be monitored on a quarterly basis by the Executive member for Highways and Transport.

## **7. 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.

## **8. Financial implications**

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

## **9. Legal powers and implications**

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

## **10. 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.

## **11. 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 recommending good practice.

It is recognised by Government that the current economic climate in the United Kingdom including the cost-of-living crisis, has the potential to increase the risk of fraud and irregularity as never seen before in the Public Sector. Furthermore, as the Council makes continued cuts in its future budgets, it is essential that it continues to

maintain strong defences against fraud and irregularity, directing its resources most effectively to mitigate the areas of highest risk.

## **12. Equality Implications**

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

## **13. 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.

## **14. Options Considered**

None, this is an report on previous and current year activity.

### **AUTHOR**

Peter Cann – Head of Audit & Assurance

[peter.cann@n-somerset.gov.uk](mailto:peter.cann@n-somerset.gov.uk)

### **BACKGROUND PAPERS**

Annual Audit Assurance Plan 2022/23

Audit Committee April 2022

Counter Fraud Update Report 2022/23

Audit Committee March 2023

Annual Audit Assurance Plan 2023/24

Audit Committee March 2023

**Appendix A – Description of Audit Assurance Ratings and Opinion:**

<b>Assurance Rating</b>	<b>Opinion</b>
<b>Comprehensive Assurance - Level 5</b>	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
<b>Substantial Assurance - Level 4</b>	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
<b>Reasonable Assurance - Level 3</b>	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
<b>Limited Assurance - Level 2</b>	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
<b>No Assurance - Level 1</b>	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