

North Somerset Council

Report to the Audit Committee

Date of Meeting: 25th April 2024

Subject of Report: Audit and Assurance – Annual 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 2023-24 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 2023-24. 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 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 9th March 2023, the Audit Committee approved the Annual Audit Assurance Plan for 2023-24.

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 2023-24**

The summary position for the financial year 2023-24 was as follows:

- Work on the 2023-24 plan is almost complete with 36 of 44 pieces of work either finalised/ reporting or substantially in progress.
- The Internal Audit service agreed to defer six audits into the 2024-25 plan, whilst a further two are reported as no longer required.
- There were two audit reports issued (one in draft) 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 a whistleblowing referral.
- A lengthy independent review of the Clevedon Seafront/ Hill Road Scheme was also completed.
- All of the recommendations due to be implemented in 2023-24 were followed-up by the audit service. Only one recommendation made within audit reports was not agreed.
- A large amount of fraud awareness work took place and this has been reported in detail separately within the Counter Fraud Annual Report 2023-24.
- State of the Internal Control framework is satisfactory, based on our audit opinions.

1) **2023-24 Significant Issues**

Assurance Levels

- 1.1 From the audit reviews completed in the 2023/24 financial year, all but two of the audits completed had an overall audit opinion of satisfactory to excellent (between 'Level 3' and 'Level 5').
- 1.2 The two audit reports issued where it was considered that the overall systems of internal control were weak ('Level 2') were in respect of Health & Safety, and Adult Social Care - Complaints. Please note that at the time of reporting, the latter audit was issued in draft form and was awaiting a formal response from management. Notwithstanding this fact, the key issues and the overall audit opinion have been discussed and agreed with the client ahead of the report being finalised.

Health & Safety

- 1.3 The key issues identified during the review concerned:
 - The Staff Health & Safety Manual was in need of review and update.
 - It was not clear when risk assessments were last undertaken and when they were due for review. No record was held of what risk assessments were required for each department.
 - The Health & Safety team had not yet been trained on using the analysis function of the staff online training system (iLearn). It is also possible that during the migration to the new training system, some staff may have not completed mandatory training.
 - Up-to-date risk assessments were not maintained for Council buildings and there was not an associated master list or database held.

- 1.4 It was identified that key to ensuring an effective and complaint Health & Safety service in the future will be the implementation of new Health & Safety management IT software. At the time of the audit, this software was undergoing penetration testing by ICT. Once in place the software/ system would enable the following benefits:
- Prioritisation and monitoring of work on a risk basis
 - Check that remedial work is being undertaken in a timely fashion
 - Keep a record of when work needs revisiting/ updating
 - Provide accurate data for reporting and analysis
- 1.5 It should also be noted that the Corporate Leadership Team (CLT) had already identified that the Health & Safety service was in need of improvement and subsequent support was being provided in this area. For example, in 2023 an experienced Health & Safety Manager was appointed who will help drive improvement, and as previously mentioned, funding has been agreed to procure a new IT system. This risk has also been included on the Council's strategic risk register for some time.

Adult Social Care – Complaints (N.B. report in draft)

- 1.6 Key findings identified during this review were as follows:
- There was one person processing all complaints for both Adults and Childrens Services, whilst in addition this person was managing the Complaints and Information Governance team. There was no formal process in place to cover this role in the event of absence.
 - There insufficient detailed complaints performance and service improvement reporting to DLT/ CLT or management. There was also no formalised system in place to provide analysis of complaints data or share learning across care locations and relevant council functions.
 - The placement of the Directorate Governance & Complaints team within the Childrens Services Directorate could give challenge to the independence of complaint handling within the service.
 - Internal and external complaint guidance was in need of review and update.
 - The utilisation of Case Tracker (Complaints IT System) could be improved, ensuring that it is used uniformly by staff and that all complaints data is recorded within it. Associated procedural guidance and training should also be refreshed, as well as development of Case Tracker to enable root-cause analysis and establishment of themes, and thus allow the Council to identify any changes or areas of training required.
- 1.7 It is proposed that, with the agreement of the Audit Committee, full follow-up reviews are therefore completed on both Health & Safety and Complaints as part of Internal Audit's planned programme of work in 2024-25.

Unplanned Work – Clevedon Sea Front/ Hill Road Scheme

- 1.8 During the year, the Internal Audit Service 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 were any areas that the Council could learn from when planning and undertaking similar work in the future.
- 1.9 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

- 1.10 Key findings were identified in the review contained within the broad headings of Budget, Time, Consultation and Governance. Upon completion of the work, a [report](#) was published and made available to the public to ensure transparency.
- 1.11 Separately, detailed improvement actions against key findings were discussed with the Council’s Chief Executive, the Director of Place, and the Director of Corporate Services/ Section 151 Officer and an update on progress against the action plan was reported to the Audit Committee in December 2023.
- 1.12 Following further work, including by independent experts AECOM, the Executive Member for Highways and Transport provided a report to the Council’s Executive on 27th March 2024. At this meeting, the Executive approved retrospective works, which are to be included as a new project within the Council’s capital programme.
- 1.13 An internal audit review of Capital Governance was included as part of the Internal Audit Plan for 2023/24. The review is seeking to provide further independent assurance over the sufficiency of monitoring, scrutiny, reporting and escalation requirements, and to ensure that improved governance arrangements have been embedded and are operating effectively. At the time of this annual report being published, the audit review was nearing completion and will be reported to the Audit Committee in due course.

Investigations & Whistleblowing

- 1.14 There was one main Audit investigation completed in the 2023-24 financial year.

Investigation – Employee Whistleblowing

There was one main Audit investigation in the 2023/24 financial year which was previously reported in-year to the Audit Committee. The investigation concerned a whistleblowing allegation made, the result of which concluded that the allegation could not be fully substantiated.

- 1.15 Additional Referrals to Internal Audit for Potential Investigation

There were five other referrals of note that were made to the Internal Audit service regarding potential concerns. Four of these were internal (two whistleblowing), whilst the fifth was an external referral.

These are categorised as follows:

- i) Confidential Whistleblowing Referral - Children’s Services Directorate
- ii) Confidential Whistleblowing Referral – Place Directorate
- iii) Issue referred to Internal Audit – Agency worker
- iv) Issue referred to Internal Audit – Use of Council facilities for personal use

In these four internal instances, whilst initial internal audit work was required, these were then able to be concluded by management without the need for formal

investigation.

For the fifth (external) referral, this concerned a charity that the Council did not have any direct involvement with and thus the complainant was signposted to the Charity Commission and were also given details of the North Somerset Safeguarding Adults Board (NSSAB).

Counter Fraud

1.16 Regular counter fraud updates were provided to the Committee throughout the year and a detailed report of all counter fraud related activity that took place in 2023-24 is presented within a separate paper to this Committee. This covers work completed and progress undertaken by the service, including but not limited to:

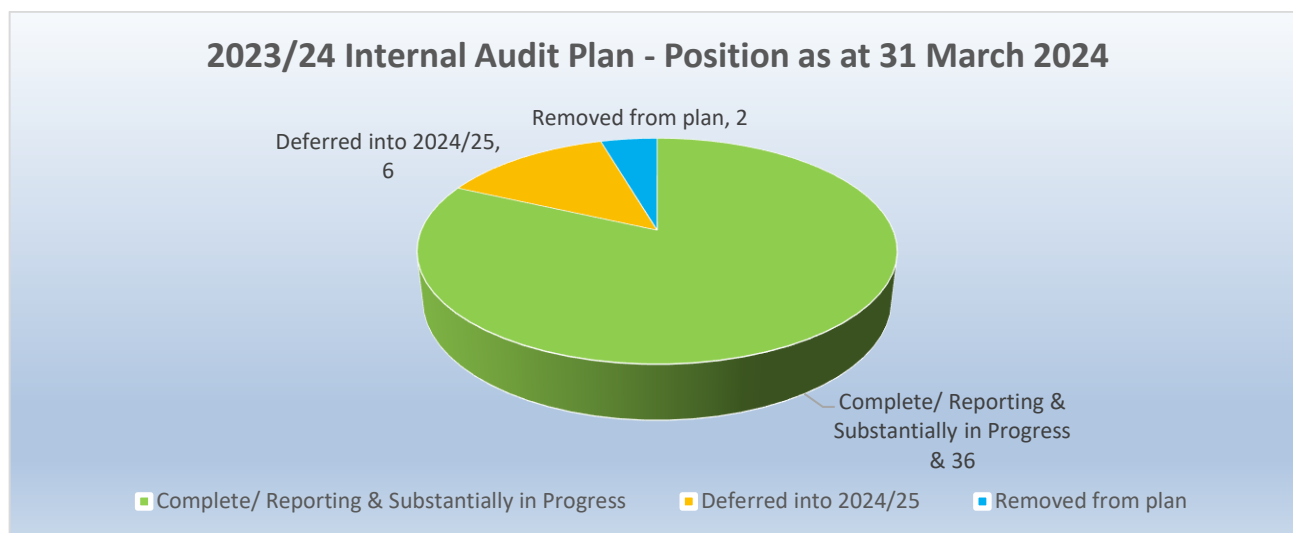
- National Picture and Emerging Risks
- Results from the National Fraud Initiative (NFI)
- Results from internal Data Analytics work
- Staff Information and Awareness
- Internal Audit Targeted Work and Investigations

Risk Management

1.17 The Council's Risk Management Strategy and associated guidance was updated and approved by the Audit Committee in November 2022, with an updated version for approval elsewhere on this meeting agenda. This work was completed by the Head of Business Insight, Policy and Partnerships, with some input from the Internal Audit service. Throughout 2023/24, the Section 151 Officer has provided quarterly Risk Management updates to the Committee.

2) Completion of 2023-24 Internal Audit Plan

- 2.1 There were 44 pieces of audit work within the plan. Of the total number of audits:
- 33 audits had been completed or were at reporting stage, and a further 3 audits were substantially in progress.
 - 6 Audits have been agreed to defer into 24/25 (1 In Corporate Services, 1 in Adult Social Services, 1 in Children’s Services and 3 in the Place Directorate).
 - 2 planned pieces of work were no longer required (both in Place Directorate).



2023-24 Internal Audit Plan Position Statement

| Audit Area | Status | Notes |
|---|----------|---|
| Fraud - Data Analytics | Complete | Results reported in November 2023 and April 2024 Audit Committee reports |
| Fraud - National Fraud Initiative (NFI) | Complete | Results reported in November 2023 and April 2024 Audit Committee reports |
| Fraud - Training, Advice and Guidance | Complete | Work reported in Audit Committee update reports throughout year |
| Governance - Annual Governance Statement | Complete | 2022/23 statement reported to Audit Committee and included within Accounts. 2023/24 statement drafted and will be presented for approval in Sep 2024. |
| Governance - Audit Committee, Boards, Advice and Guidance | Complete | Undertaken throughout year |
| Follow-up of Previous Year Recommendations | Complete | Undertaken throughout year |
| Local Transport Capital Block Funding (City Deal) | Complete | Detailed Grant Review – claim validated and signed off |
| Food Waste Collections | Complete | Detailed Grant Review – claim validated and signed off |
| Clevedon Library | Complete | Detailed Grant Review – claim validated and signed off |
| Local Transport Capital Block Funding (Highways and Pothole Fund) | Complete | Detailed Grant Review – claim validated and signed off |
| Green Homes Local Authority Delivery Grant | Complete | Detailed Grant Review – claim validated and signed off |
| Recruitment and Retention | Complete | Audit Opinion Level 4 – |

| | | |
|--|--------------------|--|
| | | Substantial Assurance |
| Customer Service – Performance | In Progress | Work in progress |
| Corporate Health & Safety | Complete | Audit Opinion Level 4 – Limited Assurance |
| Duplicate Payments – Root Cause Analysis | Complete | Audit Opinion Level 4 – Substantial Assurance |
| Council Tax and NNDR | Complete | Audit Opinion Level 4 – Substantial Assurance |
| Vehicle Mileage Expense Claims | Complete | Audit Opinion Level 3 – Reasonable Assurance |
| ICT - Governance | Reporting | Work completed, reporting to client |
| ICT – Project Management | In Progress | Work in progress |
| ICT – Firewalls | Complete | Audit Opinion Level 3 – Reasonable Assurance |
| ICT – Cyber Security Incident Management | In Progress | Work in progress |
| ICT – Cyber Security Logging & Monitoring | Complete | Audit Opinion Level 3 – Reasonable Assurance |
| Compliance with Council Procurement Process | Reporting | Work completed, reporting to client |
| North Somerset Environment Company | Deferred | Requested to defer into 2024/25 due to staff availability and to now complete across two audits/ strands |
| Public Health Funerals | Reporting | Work completed, reporting to client |
| Sea Front Concessions | No Longer Required | Senior Management advised no longer required (service to be included within Commercial Delivery Model) |
| Tropicana Income, Stocks and Utility Costs | No Longer Required | Senior Management advised no longer required (service to be included within Commercial Delivery Model) |
| Planning Services | Complete | Consultancy Review (no opinion) |
| Parking Services | Complete | Audit Opinion Level 4 – Substantial Assurance |
| CIL & Section 106 Funding | Deferred | Deferred into 24/25 as agreed with Senior Management |
| Highways – Payment Bonds | Deferred | Deferred into 24/25 as agreed with Senior Management |
| Tree Management – Risk Management | Reporting | Work completed, reporting to client |
| Climate Emergency Action Plan | Deferred | Deferred into 24/25 with new focus as agreed with Senior Management |
| Clevedon Sea Front/ Hill Road Scheme | Complete | Independent Review |
| Adult Social Services – New Funding Streams | Reporting | Work completed, reporting to client |
| Housing – Lettings Service | Reporting | Work completed, reporting to client |
| Nursing and Residential Home Provider Visits | Reporting | Work completed, reporting to client |
| Adult Social Care – Complaints | Reporting | Work completed, reporting to client |
| Unpaid Carers | Deferred | Deferred into 24/25 as agreed with Senior Management due to client availability |
| Local Authority Designated Officer | Complete | Audit Opinion Level 4 – Substantial Assurance |
| High-Cost Care and Education Packages | Deferred | Deferred into 24/25 as agreed with Senior Management |
| School Financial Value Standard | Complete | All SFVS Returns received, analysed and advice given where applicable |
| Safety Valve Scheme | Reporting | Work completed, reporting to client |
| Children Missing Education | Reporting | Work completed, reporting to client |

Deferred Audits and Audits No Longer Required

2.2 As reported to the Committee in November 2023, due to the significant work required within the Place Directorate on the Clevedon Seafront/ Hill Road Scheme independent review, combined with the additional time spent on the investigation (see 1.14) and the work spent on referrals that required audit involvement (see 1.15), it was envisaged that some audit activity would be deferred into 2024/ 2025. This was all in the Place Directorate and was as follows are:

- i) CIL and Section 106 Fundings
- ii) Highways – Payment Bonds
- iii) Climate Emergency Action Plan

Further audits have since been requested to now take place in the 2024/ 25 financial year, as follows:

- iv) North Somerset Environment Company (Corporate Services) – this was deferred as agreed with management due a combination of NSEC Senior Management availability and request for enhanced work to now take place in 2024/25 across two strands (Management/ Clienting function and Shareholding).
- v) Unpaid Carers (Adult Social Services Directorate) – due to take place in quarter four of 2023/24 but deferred at Management request due to client unplanned absence.
- vi) High-Cost Care and Education Packages (Children’s Services) – deferred at Management request and now planned for quarter one of 2024/25.

2.3 Two further audits relating to the Tropicana and Sea Front have also been advised by Place Directorate Senior Management as no longer being required. This is due to these functions now being transferred to a commercial operator, with the Tropicana closing for construction and refurbishment between September 2024 to August 2025.

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 with auditees throughout the review process to ensure that proposed recommendations are understood, are relevant and are achievable within the organisation. Through following this approach, we can report that all of the recommendations agreed in 2023/24 were found to have been implemented where they were due to be.

3.3 As above, whilst all of the agreed recommendations have been followed up with the officer(s) responsible and were implemented as agreed in year, there was one recommendation made within audit reports that was not agreed by the client. This was as follows:

Vehicle Mileage Expense Claims

Staff Driving Licence and Vehicle MOT

The Audit found that as part of the recruitment process, where employees are required to use their private vehicle in carrying out their duties, supporting documentation such as insurance business cover indemnifying the Council, valid driving licence, and current MOT, are not checked.

As a result, it was recommended that where employees are required to use their private vehicles for work then documentation for business insurance cover indemnifying the Council, valid driving licence and current MOT should be produced and checked by managers as part of the recruitment process.

This recommendation was not currently accepted by the auditee as it was considered that the Council does not have sufficient staff resources to implement. However, when the opportunity arises this will be included as part of a review of the checking process.

This is considered a fair response which has been accepted by the Auditor.

4) Compliance with Public Sector Internal Audit Standards

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

4.2 The Audit Committee are reminded that an external review of Audit West's conformation against the existing 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 North Somerset Council's 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.

4.3 The IIA released new Global Internal Audit Standards on 9th January 2024 and these will become effective 9th January 2025. The Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the Standards are 15 guiding principles that enable effective internal auditing.

4.4 Internal audit functions may start adopting the standards now, however the existing (2017) standards remain approved for a one-year transitional period. Audit West staff will be attending workshops throughout 2024/25 to understand more about the new standards, the work that will be needed to adhere to them, and requirements around external assessment.

5) Formal Opinion on the Internal Control Framework (2023/24)

- 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 2023/24, 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 is now an established method of working in North Somerset Council. However, during 2023/24 we have seen a sustained increase of physical (in-person) internal audit reviews, allowing for greater observation of behaviours and work conversations, which often can provide further insight into the activity being audited. There also remain advantages in providing internal audit services remotely however, including saving time to commute to client locations.
- In 2023/24 there were adjustments to the internal audit plan, however the vast majority of work undertaken continued to take place in the areas planned 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.
- 5.6 The ongoing financial challenge, world events including the conflicts in Ukraine and the middle-east, the ongoing cost-of-living crisis, and the ongoing impacts of Brexit, 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.
- 5.7 The Audit Committee's support of our work and maintaining effective corporate governance is appreciated and I would like to thank elected members and the independent members for their input and guidance.

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.

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 a report on previous and current year activity.

AUTHOR

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BACKGROUND PAPERS

Annual Audit Assurance Plan 2023/24

Audit Committee March 2023

Counter Fraud Annual Report 2023/24

Audit Committee April 2024

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 |