

# North Somerset Council

<b>REPORT TO THE</b>	<b>AUDIT COMMITTEE</b>
<b>DATE OF MEETING:</b>	<b>23<sup>RD</sup> APRIL 2021</b>
<b>SUBJECT OF REPORT:</b>	<b>AUDIT &amp; ASSURANCE ANNUAL REPORT 2020-21</b>
<b>TOWN OR PARISH:</b>	<b>NONE</b>
<b>OFFICER/PRESENTING:</b>	<b>PETER CANN - AUDIT WEST</b>
<b>KEY DECISION:</b>	<b>NO</b>

## **RECOMMENDATIONS:**

The Audit Committee notes the Internal Audit Annual Report 2020-21 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 2020-21. Also included is a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

### **2. POLICY**

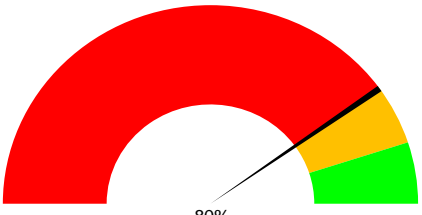
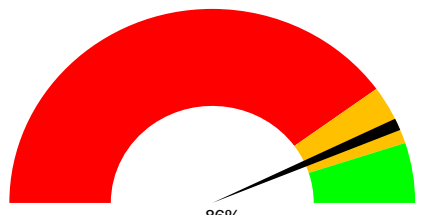
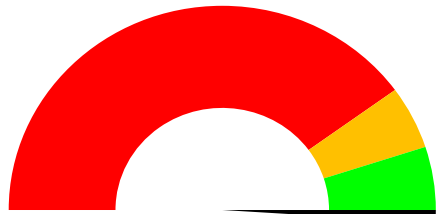
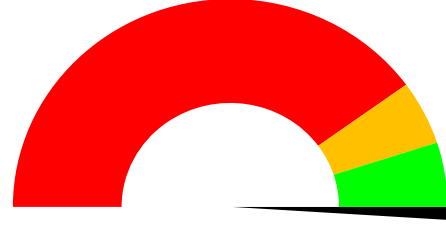
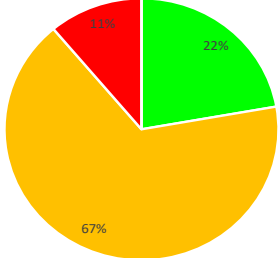
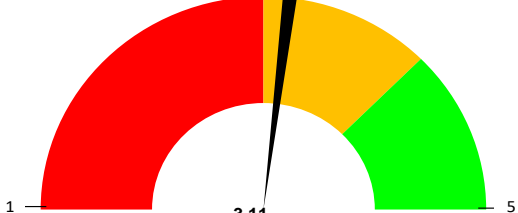

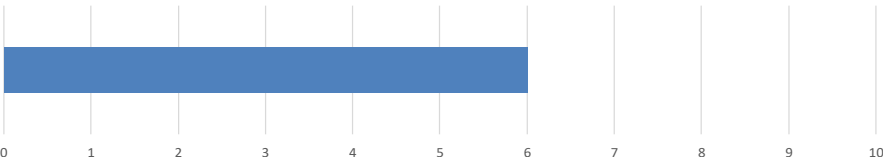

The work of the Internal Audit Service is to provide independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient to ensure delivery of the council's objectives. As part of meeting statutory and professional requirements the Chief Audit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

### **3. DETAILS**

At its meeting of 30 July 2020, the Audit Committee approved the Annual Audit Assurance Plan for 2020-21. 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 revised during the year as part of our consideration of the impacts of Covid-19 and proposed changes were discussed with the Audit Committee at its November meeting.

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.

# INTERNAL AUDIT PERFORMANCE

PERFORMANCE DASHBOARD - INTERNAL AUDIT	
Client - North Somerset Council	Period - April 2020 - March 2021
1. AUDIT PLAN COMPLETED	2. AUDITS COMPLETED IN PLANNED TIME
 <p style="text-align: center;">80%</p> <p style="text-align: center;">Green Target = &gt;90% of annual plan Amber Target = &gt;80% of annual plan</p>	 <p style="text-align: center;">86%</p> <p style="text-align: center;">Green Target = &gt;90% Amber Target = &gt;80%</p>
3. CUSTOMER SATISFACTION	4. IMPLEMENTATION OF RECOMMENDATIONS
 <p style="text-align: center;">100%</p> <p style="text-align: center;">Green Target = &gt;90% Amber Target = &gt;80%</p>	 <p style="text-align: center;">100%</p> <p style="text-align: center;">Green Target = &gt;90% Amber Target = &gt;80%</p>
5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED	
<p><b>Current Position</b> 0%</p>  <ul style="list-style-type: none"> <li><span style="color: green;">■</span> Excellent</li> <li><span style="color: red;">■</span> Good</li> <li><span style="color: yellow;">■</span> Satisfactory</li> <li><span style="color: orange;">■</span> Weak</li> <li><span style="color: red;">■</span> Poor</li> </ul>	<p><b>Current Average Assurance Level</b></p>  <p style="text-align: center;">3.11</p> <p style="text-align: center;">Previous Years Average Assurance 2019/20 3.29</p>
6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR	
 <p style="text-align: center;">Number of New Cases</p>	
7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD	
	
<p><b>Equating to 142.0 Audit Days 2020/21</b></p>	
8. NEW UNPLANNED WORK	
	
<p><b>Equating to 111.0 Audit Days 2020/21</b></p>	

## Audit Reviews - Position Statement 2021/22

<u>AREA</u>	<u>STATUS</u>
HOUSING (HMO'S)	Final
ICT DISPOSALS	Final
ICT BACK-UPS	Final
ICT DATA CENTRE CHANGE CONTROL	Final
HOME TO SCHOOL TRANSPORT	Final
BLUE BADGES	Final
COVID-19 BUSINESS SUPPORT GRANTS	Final
COVID-19 SELF ISOLATION GRANTS	Final
CUSTOMER ENGAGEMENT ROUTES AND PROCESS	Final
SCHOOL ADMISSIONS DATA MATCHING	Final
DATA ANALYTICS	Final
BURRINGTON CHURCH OF ENGLAND PRIMARY SCHOOL	Final
WINSCOMBE PRIMARY SCHOOL	Final
SCHOOLS FINANCIAL VALUE STANDARDS	Final
FRAUD (TRAINING, GUIDANCE, NEWSLETTERS, NFI)	Final
ANNUAL GOVERNANCE STATEMENT	Final
GOVERNANCE (AUDIT COMMITTEE BOARDS, ADVICE & GUIDANCE)	Final
FOLLOW-UP OF AUDIT RECOMMENDATIONS	Final
RISK MANAGEMENT SUPPORT & ADVICE	Final
GRANT CERTIFICATION – DFT BUS SUBSIDY	Final
GRANT CERTIFICATION – METRO WEST	Final
GRANT CERTIFICATION – WSM NORTH SOUTH LINK ROAD	Final
GRANT CERTIFICATION – WSM TOWN CENTRE ENHANCEMENTS	Final
GRANT CERTIFICATION – COASTAL TOWNS CYCLE ROUTE	Final
GRANT CERTIFICATION – FOOD WORKS INNOVATION CENTRE	Final
GRANT CERTIFICATION – WESTON CREATIVE WORKING HUB	Final
MISSION PROJECT BOARD	Final and ongoing advisory work
PAYMENTS TO CHILDCARE PROVIDERS	Position Statement and also in 21/22 plan
OUT OF AREA PLACEMENTS (CHILDREN)	Position Statement and also in 21/22 Plan

<b><u>AREA</u></b>	<b><u>STATUS</u></b>
<b>RESIDUAL WASTE TREATMENT CONTRACT (WOE PARTNERSHIP)</b>	SGLOS undertaking as Lead Authority
<b>USE OF RISK MANAGEMENT IN COUNCIL DECISIONS</b>	Reporting
<b>COUNCIL TAX</b>	Not Completed - Now in 21/22 Plan
<b>CLIMATE CHANGE</b>	Not Completed - Now in 21/22 Plan
<b>FINANCIAL ASSESSMENTS (NON-RESIDENTIAL)</b>	Not Completed - Now in 21/22 Plan
<b>MAJOR PROJECTS – CAPITAL RECHARGES</b>	Not Completed - Now in 21/22 Plan
<b>INTERFACES – LIQUID LOGIC/ CONTROCC/ AGRESSO</b>	Not Completed - Now in 21/22 Plan

Separate to the above, audits of; Alternative Provision (VLC), Payroll, Transactional HR, IT Cyber Security Threats (inc. Ransomware) and Debt Monitoring/ Collection were discussed with management and risk assessed. These were subsequently agreed to defer into the following year's plan.

## **PERFORMANCE SUMMARY**

### **1) COMPLETION OF THE INTERNAL AUDIT PLAN**

- 1.1 The performance dashboard shows that at the end of the financial year 80% of audits were completed. Whilst this is slightly behind the figures reported to the Audit Committee in the previous year's annual report, it does reflect the impact and disruption of COVID-19, not least with the level of unplanned work that was required.
- 1.2 Members are reminded that the Audit Plan was originally prepared pre-Covid-19 and so the impacts on the original plan altered our work throughout the year. The Committee have been regularly updated on this and understood the need for Internal Audit to be agile and supportive to Senior Management to ensure that the right work got completed at the right time, providing whatever support we could where it was needed, throughout a turbulent year. This included rebasing our planned time to focus on key issues and risks agreed with Senior Management and continuing to support the Council's Covid-19 work.
- 1.3 Additional issues that affected delivery of planned work included:

#### Level of unplanned work

See section 7.

#### Staff sickness

The absence of a key member of staff continued from 2019 into 2020. This was in respect of an employee who was largely involved in the operational management of the service and whom undertook complex audit reviews. At the end of August 2020 (5 months into the 20/21 financial year) the employee left their employment due to ill-health and further resources were allocated in replacement.

In addition, there was further sickness with an Audit Manager contracting COVID-19 and subsequently being admitted to hospital.

#### Remote Working

The move to full-time remote working has invariably affected performance due to a range of issues, including wi-fi and network availability, home working conditions, access to systems/ data remotely, and access to team members and management that we are auditing. As reported in November, this has slowed up or limited some of our work and our audit opinions are tempered by these facts.

- 1.4 Despite these challenges, Audit Management would like to formally record their thanks to staff for all of their efforts and commitment during the past year.

### **2) AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS**

- 2.1 During the year, 86% of audit reviews completed were done so within their assigned days. The remaining 14% related to minor overruns primarily linked to the challenges described with full-time remote working. It should be noted however that productivity increased throughout the year as staff further adapted to remote working.
- 2.2 Joint working across the partnership remained essential in yielding further efficiency benefits when completing reviews. This included through sharing of research, knowledge, workplans and audit findings across the two authorities.

### **3) CUSTOMER SERVICE**

- 3.1 Providing good customer service and value is fundamental to the success of the Partnership. Therefore, this remains an essential performance indicator for Audit West. The method used to capture information which then feeds into the 'Customer Service' performance measure has been discussed at previous Committee meetings. In July 2020, the Audit Committee were contacted and provided with further details and examples of the feedback mechanisms used.
- 3.2 Currently, feedback on customer satisfaction continues to be received 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.

### **4) IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS**

- 4.1 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.
- 4.2 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 are pleased to report that 100% of critical or high level recommendations made were found to have been implemented when followed-up.
- 4.3 The remaining lower priority recommendations continue to be followed-up in line with the dates that they are due to be implemented.

### **5) ASSURANCE LEVEL PROVIDED**

- 5.1 Of the audits completed where an assurance rating has been given, all but one had an opinion ranging from satisfactory to excellent (i.e. 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').
- 5.2 There was one audit report issued where it was considered that the overall systems of internal control were weak ('Level 2') and this was in respect of Blue Badges (Disabled Parking Permits) which was previously highlighted to the Committee.
- 5.3 As background, the Department for Transport provide guidance and legislation on the issuing of Blue Badges. However, it is up to each individual authority to review and process application and at North Somerset Council the Blue Badge service is managed by Business Support (Agilisys) on behalf of Adult Social Services.

The team have various duties, including the responsibility for reviewing and processing both online and paper applications. This involves checking evidence of I.D. and addresses and determining the applicant's eligibility.

- 5.4 During the audit, a range of issues in relation to the ineffective operation of the Blue Badge service were identified and high-risk exposure was found in the areas of:

- Evidence required to support applications (badge requests) was regularly not being retained
- There was no formal independent quality checking process for applications processed by the team (which would ensure consistency and accuracy)
- Although proof of I.D. was checked against the application form details, there was no process for cross-checking the information against other Council systems i.e. Council Tax, Electoral Register, etc.
- The national Blue Badge database was not being checked to identify if applicants have an active Blue Badge elsewhere in the country
- There is a lack of formalised criteria for issuing organisational badges and where badges have been issued to organisations records are not always kept of what vehicle they have been issued to.

5.5 Notwithstanding the above issues, it was recognised that the team held clear written guidance for administering most aspects of Blue Badges and were processing large volumes of applications within the defined timescales. They also engaged well during the review, agreeing and implementing recommendations as the review proceeded and have also responded positively to the final audit findings.

## **6) INVESTIGATIONS/ WHISTLEBLOWING & COUNTER FRAUD**

The audit service undertook six new investigations during the year, equating to 142 days of activity. A summary of the investigations and their status is as follows:

### **6.1 Investigation 1 - Closed**

An employee had attempted to use the Council's internal post system to send private goods. Internal Audit completed background work and subsequently a conduct meeting was held in June 2020. The employee admitted the indiscretion as a one-off, citing excessive queues at the post office due to COVID-19 as the reasoning for this misuse. The employee was sanctioned accordingly.

### **6.2 Investigation 2 – Closed**

A newly appointed employee was undertaking a physical role within the Council. However, concerns were raised that the employee, who was also a Blue Badge holder, may have submitted a false declaration – either through a false Blue Badge application or through false medical information on the employment application form.

Internal Audit reviewed the information and documentation surrounding the case and provided advice to both service management and HR, particularly in relation to discrepancies identified in the documents and points to consider in a subsequent HR interview. Following interviews and additional conduct concerns unrelated to this case, the employee's employment was ceased.

### **6.3 Investigation 3 - Closed**

This investigation was completed at the request of D&E Management, where Internal Audit were asked to carry out a fact-finding investigation in a specific service area. This was a significant review and, whilst the investigation has been completed, regular internal audit support remains ongoing to the service area.

### **6.4 Investigation 4 – Closed**

An external complaint/ allegation against a Council officer's working practices was received via the Council's Fraud email address. An investigation began; however, the

allegation was later withdrawn by the complainant and the matter was subsequently addressed internally through line management arrangements.

#### 6.5 Investigation 5 – Draft Report Issued

A payment was made by the Council to a Nursing Home. As part of this payment, a request was made to change the bank account details to which the payment should be made. Whilst this request came from the Home's email address the Home later stated that they never asked for the change of bank details, nor requested or received the subsequent payment made by the Council. However, the payment had reportedly been received and removed from the bank account that it was paid to.

The matter was investigated by Internal Audit and it was concluded that all communication relating to this payment came from the Home's usual email address and the invoices received in respect of the payment request were genuine, based on services charges incurred for a known Service User. Invoices were checked by the Council and additional personal spending receipts were requested and received from the Nursing Home prior to payment. Furthermore, later requests to change the bank details again were challenged by Council officers and prompt action was taken to escalate the issue through line management and hence led to this investigation.

The case currently remains open with Action Fraud. Separately, the Home are completing an internal investigation which will also cover this issue.

#### 6.6 Investigation 6 – Investigation Ongoing

Internal Audit are working with another Council in respect of a COVID-19 grant fraud. As the investigation is ongoing, the value and type of the suspected fraud cannot yet be disclosed publicly. However, Internal Audit are continuing their localised enquiries, including work with Liberata to further identify the comprehensive details behind this incident. In this respect, it has already been established that the fraudster has not made gain from North Somerset Council elsewhere.

The information from this specific investigation will help to inform the approach taken as part of the extensive COVID-19 Grant Funding pre & post payment assurance work that is planned for 2021/22, with the aim to further protect the public purse and Council funds.

## **7) UNPLANNED WORK**

7.1 As anticipated, the unplanned audit work that took place in 2020/ 21 was predominantly centred around the emerging Coronavirus pandemic. A description of this work was formally reported in detail in a paper to the Audit Committee at the meeting of 7<sup>th</sup> July 2020 and included specific information on:

- Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund
- Local Authority Discretionary Fund
- Fraud Alerts to staff
- Advice and Assistance to Service Areas
- Participation in the Institute of Internal Auditors 'COVID-19 forum'

7.2 The above work and further associated requests continued throughout the year and will now form a large part of the planned work in the 2021-22 Internal Audit plan (see separate agenda item).



## **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.

## **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.

As highlighted during our mid-year report to the Audit Committee in November 2020, we then reported the state of the internal control framework as satisfactory based on our audit opinions. However, it was also highlighted at this time that our opinions were tempered by remote working as we could not observe normal practices due to Covid-19.

This has continued to be the case throughout the remainder of the year and, coupled with the level of unplanned work and subsequent necessary changes to the original schedule of planned work, has brought into consideration whether a limited or qualified opinion should be issued as a result of the changing plan. The Institute of Internal Auditors guidance in this respect is that if the Audit Committee has agreed to the changed plan, then there is no need for a limited opinion; the opinion will reflect the work detailed as agreed.

It is therefore my opinion that, based on the planned work completed due to the circumstances of Covid-19, 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 councils operations due to Covid-19.

9.2 The ongoing financial challenge, especially within a year dominated by Covid-19 also places further pressure 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.

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 2020/21

Audit Committee July 2020

Update Performance Report 2020/21

Audit Committee Nov 2020

COVID-19 Grant Funding Report

Audit Committee July 2020

**Appendix A - Audit 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