



**SWAP**

**INTERNAL AUDIT SERVICES**

Assuring – Improving – Protecting

# Taunton Deane Borough Council

Report of Internal Audit Activity

Outturn Report 2018/19

**Internal Audit ■ Risk ■ Special Investigations ■ Consultancy**

Unrestricted

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## Internal Audit Plan Progress 2018/2019

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Follow Up**
- **Non-Opinion / Advisory Reviews**



### Role of Internal Audit

The Internal Audit service for the Taunton Deane Borough Council is provided by SWAP Internal Audit Services (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Corporate Governance Committee at its meeting in March 2018.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Follow Up
- Non-Opinion / Advisory Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team. This year's Audit Plan was reported to and approved by this Committee at its meeting in March 2018. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

## Internal Audit Plan Progress 2018/2019

### Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



### Internal Audit Work

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2018/19. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed on **Appendix A** of this document.

Since the December 2018 update the following audits have been finalised.

Audit Area	Quarter	Status	Opinion
<b>2018/19</b>			
Healthy Organisation	2 & 3	Final	Medium
System Parameter Testing	4	Final	Advisory
Service Mapping Activity	3	Final	Advisory

Overall good progress has been made on the Audit Plan 2018-19. The current position statement can be seen at **Appendix B**.

## Internal Audit Plan Progress Outturn 2018-19

### Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.

### Internal Audit Work

#### **Partial Assurance / No Assurance Audits**

As agreed with this Committee where a review has a status of 'Final' and has been assessed as 'Partial' or 'No Assurance', I will provide further detail to inform Members of the key issues identified. Since the December update there are no 'Partial' or 'No Assurance audits that I need to bring to your attention. I have included details on the Healthy Organisation review as this cross-cutting review looks across 8 key theme areas. The conclusion on our work is in the form of a RAG rating (Red, Amber Green) as an overall assessment and against the 8 key theme areas. TDBC has an Amber rating. Further details can be found within **Appendix A** together with a comparison with other local authorities where we have undertaken the work.

#### **'High' Corporate Risk**

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place we re-evaluate the risk based on how effective the control are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'high', I will bring this to your attention.

There are no 'High' corporate risks that I need to bring to your attention through the work we have completed since the December 2018 update.

## Internal Audit Plan Progress Outturn 2018-19

We keep our audit plans under regular review to ensure that we are auditing the right things at the right time.



### Approved Changes to the Audit Plan

The audit plan for 2018/19 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Taunton Deane Borough Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Section 151 Officer/Audit Client Officer.

Since the December 2018 update the following changes have been made to the Internal Audit Plan:

- An anonymous allegation was made around the conduct and procurement activities of an officer at the Council. To accommodate this investigation time was taken from the Programme of Consolidation and Refresh of Network Security.

**Audit Assignments completed since the December 2018 update:**

**These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.**



### Summary of Audit Findings

The following information provides a brief summary of each audit review finalised since the last Committee update in December 2018. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review.

Since the December 2018 update there are no 'Partial Assurance' audit opinions that I need to bring to your attention. I have, however included details of our Healthy Organisation review which looks at 8 key theme areas. Included at the end is a comparison with other local authorities where we have undertaken this review.

### Healthy Organisation

The concept of a Healthy Organisation review was developed by SWAP Internal Audit Services and the West of England Chief Internal Auditors Group to provide an objective assessment of the management control framework or 'health' of an organisation.

The review framework assesses against eight corporate themes; Corporate Governance; Financial Management; Risk Management; Performance Management; Commissioning and Procurement; Information Management; Programme & Project Management; and finally, People and Asset Management. A Red, Amber and Green (RAG) rating is applied to each theme reviewed. These eight themes together contribute towards an overall assessment and understanding of the Council as a 'Healthy Organisation'.

For each of the corporate themes the strength of the management control framework in place was assessed against a benchmark model by identifying the presence or otherwise of key controls. This included the use of assurance from other sources, such as external audit, as well as recent internal audit reports. The work was carried out during 2018/19 with the draft report issued in December 2018 and finalised in January 2019.

# Internal Audit Plan Progress Outturn 2018-19

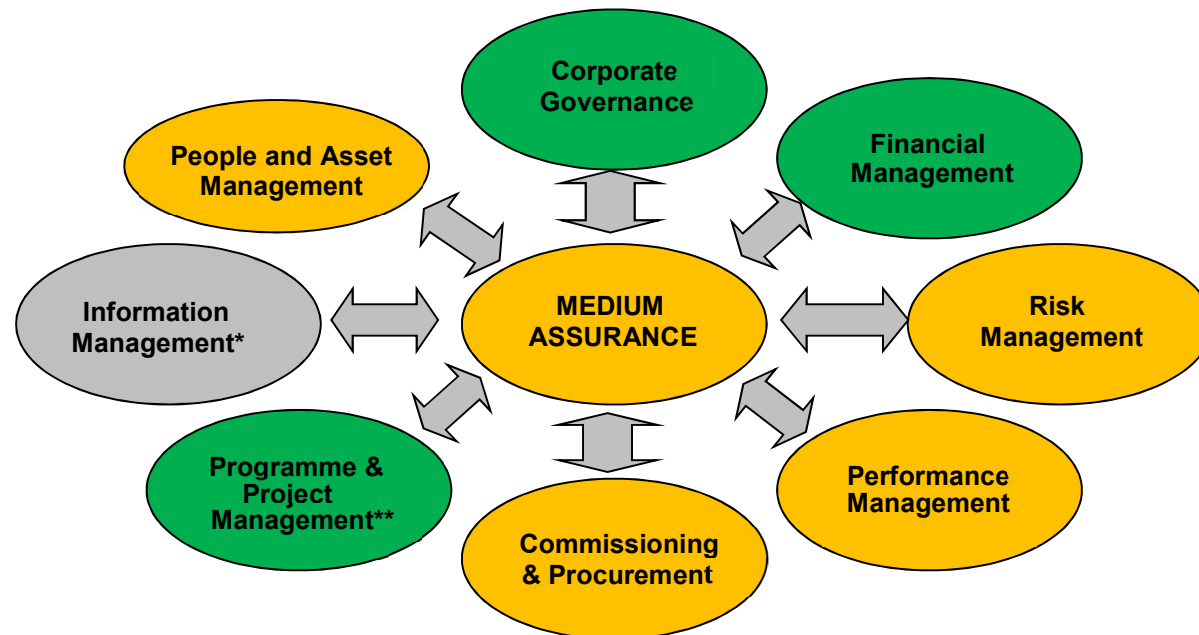
Eight themes are normally reviewed for the Health Organisation piece of work. Information Management was out of scope for this review due to the significant pressure on IT resources during the change process. The remaining seven themes reviewed were:

1. Corporate Governance;
2. Financial Management;
3. Risk Management;
4. Performance Management;
5. Commissioning and Procurement;
6. Programme & Project Management;
7. Information Management;
8. People and Asset Management

## Healthy Organisation

The assurance levels, for each of the eight themes referred to above, have been reviewed and depicted in the following chart. This leads us to provide a **Medium** Assurance opinion. As outlined above, the delivery of the Transformation Programme and the impending changes on control frameworks, together with the additional pressures on staff have meant that this report should be considered as a “Part One” review. A further review will be carried out in 2019/20 to assess transformed arrangements for Somerset West and Taunton Council.

### Overall assurance graph



\* Not reviewed due to client availability during transformation.

\*\* Limited to the growth programme.



## Internal Audit Plan Progress Outturn 2018-19

Eight themes are normally reviewed for the Health Organisation piece of work. Information Management was out of scope for this review due to the significant pressure on IT resources during the change process. The remaining seven themes reviewed were:

1. Corporate Governance;
2. Financial Management;
3. Risk Management;
4. Performance Management;
5. Commissioning and Procurement;
6. Programme & Project Management;
7. People and Asset Management

### Healthy Organisation

#### Corporate Governance – Green Rating

##### Key Areas covered

- Leadership of the Council
- Clear vision and plan
- Effective working relationships
- Codes of Conduct
- Openness and Transparency
- Complaints and Whistleblowing
- Decision Making
- Overview and Scrutiny
- Stakeholder Consultation
- Annual Review of Governance
- The Constitution
- Member Development
- Senior Officer Development
- Annual Governance Statement
- Marketing and Communication Strategy

The **Green** RAG rating has been assigned because governance within the Council is generally well managed. Management should note that as transformation moves towards the formulation of the New Single Council there are some key documents that require an update to ensure they reflect the aims and objectives of the New Single Council and legislation. These include the: Corporate Plan; Constitution (including Financial Regulations and Contract Standing Orders); Strategy (including the People Strategy and Communication Strategy), Policy (including the Whistleblowing Policy) and Procedure. Once the new Authority is up and running members and staff should be surveyed to determine the effectiveness of working relationships and to ensure members have the knowledge and skill through training to deliver their role effectively.

## Internal Audit Plan Progress Outturn 2018-19

Eight themes are normally reviewed for the Health Organisation piece of work. Information Management was out of scope for this review due to the significant pressure on IT resources during the change process. The remaining seven themes reviewed were:

1. Corporate Governance;
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4. Performance Management;
5. Commissioning and Procurement;
6. Programme & Project Management;
7. People and Asset Management

### Healthy Organisation

#### Financial Management – Green Rating

The **Green** RAG rating has been assigned because there is no evidence of repeated overspending at service level and the Council has always been within budget. Areas for attention that need to be addressed in order to improve the internal control framework include: the lack of budget setting guidance; the lack of budget monitoring guidance, the ad-hoc budget monitoring reports produced. Other issues are mentioned below.

#### Key areas covered

- Budget Setting
- Medium Term Plan
- Budget Management
- Budget Monitoring
- Financial Systems
- Financial Regulations
- Value for Money
- Treasury Management
- Financial Resilience
- Financial Liabilities

#### Risk Management – Amber Rating

#### Key areas covered

- Risk Management Strategy
- Risk Appetite
- Risk Registers
- Planning, monitoring & reporting
- Options and Proposals
- Decision making
- Transparency

The **Amber** RAG rating has been assigned because although there is a Joint Corporate Risk Management Framework in operation, a Corporate Risk Register in existence and oversight by Management and Members, weaknesses still exist with risk management being an embedded and everyday process that captures risks both top down and bottom up. We have identified that the Strategy has not been reviewed since May 2014, it does not include risk appetite statements and is not accessible to staff via the intranet. The level and detail of risks capture at operational and service level is weak and staff have not received risk management training recently. Risk language used throughout the organisation is not consistent in all areas where risks are referred to, nor is the method of risk assessment.

# Internal Audit Plan Progress Outturn 2018-19

Eight themes are normally reviewed for the Health Organisation piece of work. Information Management was out of scope for this review due to the significant pressure on IT resources during the change process. The remaining seven themes reviewed were:

1. Corporate Governance;
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3. Risk Management;
4. Performance Management;
5. Commissioning and Procurement;
6. Programme & Project Management;
7. People and Asset Management

## Healthy Organisation

### Performance Management – Amber Rating

The **Amber** RAG rating has been assigned because: the Council have not documented their Performance Management Framework; Performance measures have not been reviewed since 2017/18; There is a need for refresher training on performance management; Joint Management Team and Members monitor performance biannually rather than quarterly. The performance management framework will need to be updated in line with the new organisational structure and its priorities. Mechanisms need to be developed to easily capture the relevant data to inform how well the Authority is delivering on its priorities and statutory commitments.

#### Key areas covered

- Performance Management Framework
- Key Outcome Measures
- Monitoring of KPIs
- Accountability & Responsibility
- Data Integrity
- Performance Reports
- Performance Management informs initiatives
- Links to Corporate Objectives

### Commissioning & Procurement – Amber rating

#### Key areas covered

- Commissioning & Procurement Strategy
- Procurement Life Cycle
- Procure and Commissioning decisions
- Policy Framework
- Achieving benefits and savings
- Transparency in the letting of contracts
- Category Management
- Understanding of key suppliers
- Maximising Social Value

The **Amber** RAG rating has been assigned because: There are no commissioning strategies; Procurement Strategies are out of date; No monitoring on the performance of the procurement activity has been undertaken; There are a lack of savings and benefits targets in place for procurement activities. Further areas for attention are detailed below.

## Internal Audit Plan Progress Outturn 2018-19

Eight themes are normally reviewed for the Health Organisation piece of work. Information Management was out of scope for this review due to the significant pressure on IT resources during the change process. The remaining seven themes reviewed were:

1. Corporate Governance;
2. Financial Management;
3. Risk Management;
4. Performance Management;
5. Commissioning and Procurement;
6. Programme & Project Management;
7. People and Asset Management

### Healthy Organisation

#### Programme and Project Management – Green Rating

The **Green** RAG rating has been assigned because: Programme and Project Management within the Councils are generally well managed. The Programme and Project Management framework could be strengthened through a review and update of the Taunton Growth Programme Organisation Structure Document; by being more explicit within the Project Brief about the capacity and skills required to deliver projects; ensuring that the management of risk is in accordance with the Council's Risk Management Framework and the minuting of Project Management Meetings in relation to the Coal Orchard.

#### Key areas covered

- Programme & Project Methodology
- Project Risk Management
- Capacity and Skills
- Reporting and Monitoring
- Responsibility and Accountability
- Delivering Objectives

#### People and Asset Management – Amber Rating

#### Key areas covered

- Asset Management Plan
- Asset Inventory
- Workforce Planning
- VfM through utilisation of assets
- Safeguards against misuse of assets
- Investment Appraisal
- OD Policy Framework
- Policy Compliance
- OD Benefits Realisation
- Organisational Culture

The **Amber** RAG rating has been assigned because: the protocols within the Corporate Asset Management Strategies have not been implemented; the inventories of the Council published on the website are out of date; at the point of testing asset data was still being held on spreadsheets; the lack of continuous monitoring of financial and non-financial data with a view to ensuring value for money through the utilisation of assets; Human Resource policy and procedure requires updating; and performance measures related to the Human Resource Policy Framework requires development.

# Internal Audit Plan Progress Outturn 2018-19

Eight themes are normally reviewed for the Healthy Organisation piece of work. Information Management was out of scope for this review due to the significant pressure on IT resources during the change process:

1. Corporate Governance;
2. Financial Management;
3. Risk Management;
4. Performance Management;
5. Commissioning and Procurement;
6. Programme & Project Management;
7. Information Management;
8. People and Asset Management

\* Not reviewed due to client availability during transformation.

\*\* Limited to the growth programme.

## Healthy Organisation

A number of Healthy Organisation reviews have been carried out across SWAP partners and a summary chart is provided below to show how TDBC & WSC compare to other authorities. The attached Healthy Organisation Report will provide a further breakdown against each of these 'themes' and guide management where improvement could be made.

Type of Authority	Overall	Corporate Governance	Financial Management	Risk Management	Performance Management	Commissioning & Procurement	Programme & Project Management	Information Management	People & Asset Management
TDBC & WSC	Medium Assurance	Green	Green	Yellow	Yellow	Yellow	**	*	Yellow
District Council 1	Medium Assurance	Green	Green	Yellow	Yellow	Yellow	Green	Yellow	Yellow
District Council 2	High Assurance	Green	Green	Green	Green	Yellow	Yellow	Yellow	Green
District Council 3	Medium Assurance	Green	Green	Yellow	Green	Yellow	Green	Yellow	Yellow
District Council 4	Medium Assurance	Green	Green	Yellow	Green	Yellow	Green	Yellow	Yellow
Unitary Council	Medium Assurance	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Green
County Council 1	Medium Assurance	Green	Yellow	Green	Yellow	Yellow	Green	Yellow	Yellow
County Council 2	Medium Assurance	Green	Yellow	Green	Yellow	Yellow	Green	Yellow	Yellow

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
<b>FINAL</b>									
Follow-up	Use of non-contracted suppliers - DLO	1	Final	Non-Opinion	2	-	2	-	
Follow-up	Housing Compliance - Gas Safety	1	Final	Non-Opinion	-	-	-	2	
Follow-up	DLO External Income	1	Final	Non-Opinion	6	-	1	5	
Follow-up	Parking Maintenance	1	Final	Non-Opinion	3	0	0	3	
Governance, Fraud & Corruption	<b>New:</b> GDPR - Members Awareness Training	1	Final	Non-Opinion	-	-	-	-	
Operational	Crematorium Service Review	1	Final	Partial	6	2	4	0	
Governance, Fraud & Corruption	Supplier Resilience	1	Final	Partial	6	-	1	5	
Operational	Housing Compliance (Fire Safety Management)	1	Final	Partial	11	4	4	3	
Key Control Audit	Housing Rents	2	Final	Reasonable	5	-	1	4	
Governance, Fraud & Corruption	Insurance Arrangements	2	Final	Reasonable	2	-	2	-	
Governance, Fraud & Corruption	GDPR - Action Plan Progress	2	Final	Reasonable	7	-	-	7	
Governance, Fraud & Corruption	Growth Agenda - Programme and Project Management	2	Final	Reasonable	2	-	1	1	
Governance, Fraud & Corruption	Healthy Organisation	2 & 3	Final	Medium	44	-	-	-	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
Transformation	<b>New:</b> Service Mapping Activity	3	Final	Advisory					
Key Control Audit	System parameter Testing	4	Final	Advisory					
<b>DRAFT</b>									
Key Control Audit	Treasury Management	3 & 4	Draft						
Key Control Audit	Main Accounting	3 & 4	Discussion Document						
Governance, Fraud & Corruption	<b>New:</b> Investigation	4	Draft						
Key Control Audit	Debtors	3 & 4	Discussion Document						
<b>IN PROGRESS</b>									
Transformation	Business Process Re-engineering	1 to 4	In Progress						
Transformation	Benefits Realisation Management	1 to 4	In Progress						
Transformation	New Council Governance	1 to 4	In Progress						
Key Control Audit	Creditors	3 & 4	In Progress						
Transformation	<b>New:</b> Redundancy Payments	4	In Progress						
Information & Communication Technology	Universal Transaction Portal (Firm Step Implementation)	4	In Progress						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ← → 3 = Minor			Comments
						Recommendation			
						1	2	3	
<b>DROPPED</b>									
Transformation	Strategic Framework	1 to 4	Dropped	Time to Fire Safety Management and Redundancy Payments.					
Information & Communication Technology	Refresh of Network Security Infrastructure	2 to 3	Dropped	Time to Investigation.					
Information & Communication Technology	Programme of Consolidation	2 to 4	Dropped	Time to Investigation.					
Operational	Homelessness Reduction	4	Dropped	Time to Service Mapping Activity.					
Key Control Audit	Payroll System (Contract Arrangement)	2	Dropped	Time to Service Mapping Activity.					



At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- None
- Non-Opinion/Advisory

<b>Substantial</b>	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
<b>Reasonable</b>	▲ ★ ★ ☆	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	▲ ★ ☆ ☆	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>None</b>	▲ ☆ ☆ ☆	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

**Non-Opinion/Advisory** – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

**Categorisation of Recommendations**

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 1: Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Finding that requires attention.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

**Definitions of Risk**

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.