



**SWAP**

**INTERNAL AUDIT SERVICES**

Assuring – Improving – Protecting

# Taunton Deane Borough Council

Report of Internal Audit Activity

Annual Opinion Report 2018/19

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

Unrestricted

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SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

## Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



### Purpose

The Accounts and Audit Regulations (England) 2015 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual opinion report to those charged with governance to support the AGS. This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment;
- disclose any qualifications to that opinion, together with the reasons for the qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- compare the work undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria;
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.



# Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



## Background

The Internal Audit service for Taunton Deane Borough Council is provided by the 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). The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness through the work based on the Annual Plan agreed by Senior Management and this Committee.

The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

### The Three Lines of Defence Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



### Annual Opinion

This Annual Report gives the opinion of the Assistant Director (Head of Internal Audit) on the adequacy and effectiveness of internal control, governance and risk management within Taunton Deane Borough Council. Internal Audit has not reviewed all risks and assurances relating to Taunton Deane Borough Council and cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan at **Appendix B**, and as such it is one source of assurance on the adequacy of the internal control environment.

Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control. The purpose of internal control is to manage risk rather than eliminate it. Getting the balance of internal control right is essential for organisational success—to knowingly take risk rather than be unwittingly exposed to it.

In the 2018-19 audit plan for Taunton Deane Borough Council there were 26 reviews to be delivered. In agreement with management, and previously reported to this Committee, some reviews were 'exchanged' or 'removed' as the need to respond to new and emerging risks was identified. Change can be seen from **Appendix B**.

Out of the 25 revised reviews to be delivered, all except seven are at report stage. Of those at final report stage, three (21%) received Partial Assurance. I am encouraged by the management response and readiness to accept and address the matters raised in audit reports. Whilst our follow up reviews have shown some recommendations remain outstanding, the most significant risks were addressed.

The Healthy Organisation review has been a major piece of work this year and covered the management control framework across eight corporate themes. Each theme was assessed, and these assessments were used to provide an overall rating of Medium. The main areas of weakness are included in the 2019-20 Internal Audit Plan, which will provide assurance that improvements are made, and expected outcomes achieved.

## Internal Audit Annual Opinion 2018/19

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



### Annual Opinion Continued

It is also worth noting the number of 'Advisory' audits during 2018-19. Given the level of change within the Authority, Internal Audit has a role to play in being the 'Trusted Advisor', and as such we have been involved in a number of key areas of organisational change. Although no opinion is offered with this work, the work is used to assist in forming our overall opinion on the adequacy of internal control, governance and risk management.

When forming this 'opinion' I have considered the major transformational change that the Authority is undergoing and I am mindful of the fact that the majority of the impact of this change, both positive and negative, will be felt from March 2019 onwards. The back drop to 2018-19 was one of uncertainty for staff due to the organisational wide change and voluntary redundancy open to all staff. Despite this uncertainty and the scale and speed of change we have been encouraged by how well staff have adapted.

Through our work we can see there is strain and some weaknesses are appearing in the internal control framework, however, based on the balance of audit work, the assurance levels provided and outcomes, together with the response from Senior Management and our Advisory work, I feel I can offer '**Reasonable Assurance**' on the internal control framework in place. The pace and extent of change is not without risk but there is evidence that appropriate steps have been taken to address the most significant areas of risk, although this might come at a short-term financial cost and there will be some disruption to services during the initial period of transition.

## Summary of Audit Work 2018/19

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Transformation
- Follow-up



### Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits agreed for inclusion in the Annual Audit Plan 2018-19 and the final outturn for the financial year. In total, 25 will be delivered. 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.

Of the 25 reviews in the revised 2018-19 audit plan, they are broken down as follows:

Type of audit	2018-19 original plan	2018-19 revised plan
• Operational Audits	3	2
• Key Control	7	6
• Governance, Fraud & Corruption	5	7
• Information Systems	3	1
• Transformation	4	5
• Follow-up	4	4
• TOTAL	26	25

As would be expected some audits were 'exchanged' or 'removed' as the need to respond to changes and emerging risks that arose during the year. Due to the need to be flexible with transformation work a number of reviews have been exchanged throughout the year.

In addition to the 2018-19 annual Audit Plan, we have also undertaken a number of benchmarking and comparison pieces of work during the year that are summarised in the 'added value' section of this report.

## Summary of Audit Work 2018/19

### Significant Corporate Risks

Identified Significant Risks should be brought to the attention of the Audit Committee.



### Significant Corporate Risks

We provide a definition of the three Risk Levels applied within audit reports under **Appendix A**. For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

Review/Risks	Auditors Assessment
<p><b>Housing - Fire Safety Management</b></p> <p><i>Council owned properties are unsafe and non-compliant with fire safety policy and legislation resulting in tenants' lives being put at risk, the Council suffering legal recourse, increased budgetary pressure and damage to its reputation.</i></p> <p>Action has been taken to mitigate this risk in year. A follow up audit is scheduled for Q1 in 2019-20 Audit Plan.</p>	High

During 2018-19 there have been three Partial Assurance Audits. Our assessment at a corporate level of these weaknesses are assessed as follows:

- Supplier Resilience – Medium Risk
- Crematorium – Medium Risk
- Fire Safety Management – High Risk (See above)

The Council has also faced some significant challenges in the year through the transformation programme.



## Summary of Audit Work 2018/19

### SWAP Performance - Summary of Audit Opinions

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

- Substantial
- Reasonable
- Partial
- No Assurance

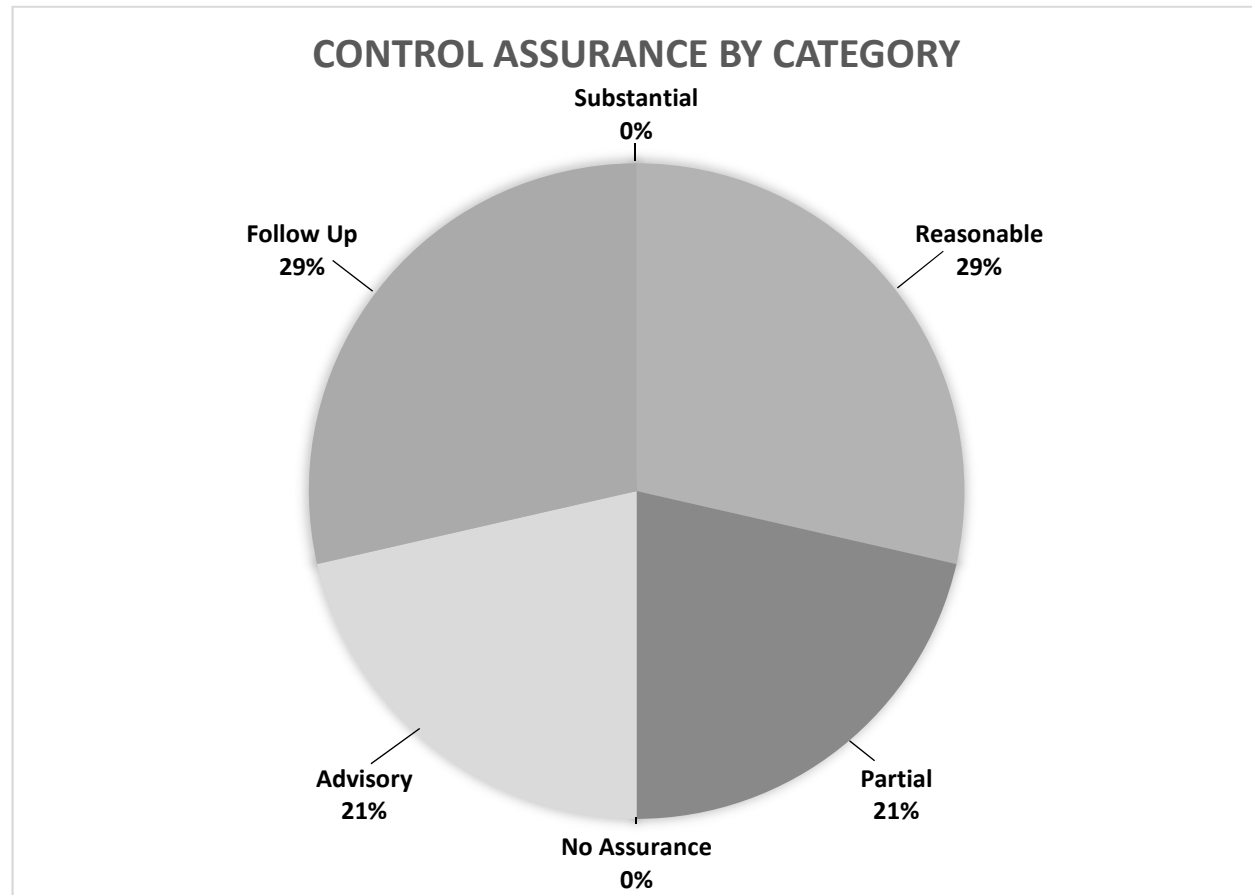
We also undertake 'Advisory / Non-Opinion' work on a consultancy basis where we have been asked to look at a specific area of potential concern.

Where we follow up on a previous adverse audit opinion the opinion is stated as 'follow up'.



### Summary of Audit Opinion

Taking only the finalised reviews into account, the breakdown is summarised below. Definitions for each assurance category can be found in [Appendix A](#).



# Summary of Audit Work 2018/19

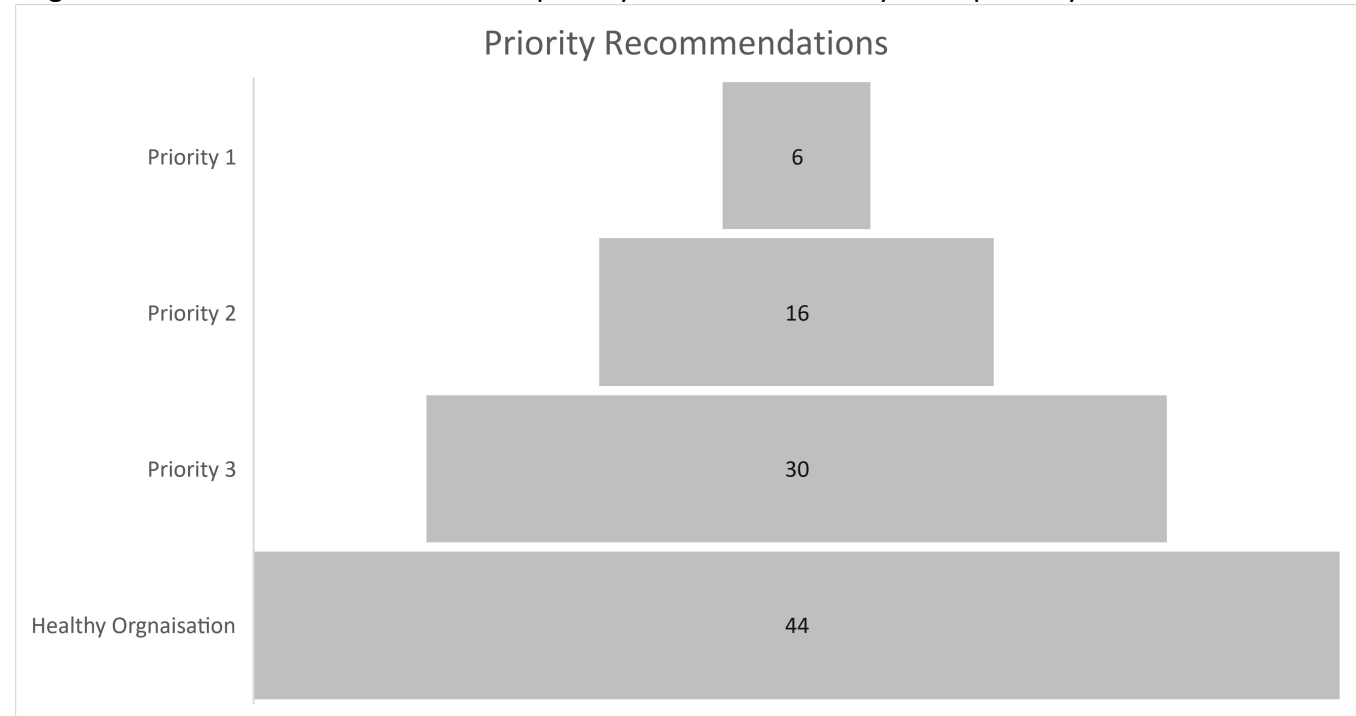
## SWAP Performance - Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 1 being areas of major concern requiring immediate corrective action to 3 being minor or administrative concerns.



### Priority Actions

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. Therefore, recommendations are assessed as to how important they are to the scope of the area audited. Priority 1 recommendations being more important than priority 3. All recommendations as currently contained in **Appendix B** are summarised below. Please note the Healthy Organisation recommendations are not priority rated and are analysed separately below.



### Added Value

**Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.**



### Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

In addition to audits undertaken in [Appendix B](#), where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where TDBC has requested or participated in enabling us to produce benchmarking reports across the partnership:

- **Fraud Bulletins** – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- **Members Training Days** – We organise and provide members training days across the various SWAP regions focussing on the role of the audit committee, internal audit and more general topical subjects that are relevant to the Audit Committee.
- **Partners Newsletters** – We also produce quarterly partner newsletters that provides information on topical areas of interest for public sector bodies.
- **Building Control** – A comparison was completed on how the Councils maintain and plan to expand their current market share of statutory Building Control business within their geographic area.



### Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cos.



### Added Value Continued

- **B&B VAT Charges** – A comparison was made on how councils manage the change in VAT rules for B&B stays over 28 days.
- **Business Continuity Management** – compared the Business Continuity processes in place for the local authorities and identified any areas of best practice.
- **Revenue Debt Recovery** - Comparisons were made against the different payment options offered, the recovery methods used, the enforcement action undertaken, the performance targets set and monitored, and the number and average value of repayment plans. This was to determine whether there is any additional recovery action the councils could take to tackle current and historic unpaid debts accumulated from the non-payment of Council Tax and Business Rates, and recoverable Housing Benefit Overpayments.
- **Anti-Fraud & Corruption Policy & Strategy Comparison** – compared the contents of the strategies in place across the councils that responded.
- **Car Parking Benchmarking** – a comparison was undertaken on the charging for car parks across local authorities at hourly, and daily rates and permit holder rates. They also compared the alternative use of the car parks and how enforcement is managed.

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



## SWAP Performance

SWAP now provides the Internal Audit service for 18 Councils, 4 Police Authorities, 4 Office of Police and Crime Commissioners and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for Taunton Deane Borough Council for the 2018-19 year are as follows;

Performance Target	Average Performance
<p><b><u>Audit Plan – Percentage Progress</u></b></p> <p>Final, Draft and Discussion</p> <p>Fieldwork Completed awaiting report</p> <p>In progress</p>	<p>76%</p> <p>76%</p> <p>100%</p>
<p><b><u>Quality of Audit Work</u></b></p> <p>*Customer Satisfaction Questionnaire</p>	<p>99%*</p>

\*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, professionalism and value added.

**The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.**



### SWAP Performance

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). SWAP has been independently assessed and found to be in conformance with the Standards.

SWAP has been independently assessed and found to be in full conformance to the International Professional Practices Framework and the PSIAS. As a result of the external assessment, a Quality Assessment Improvement Plan (QAIP) was produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.



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

- Substantial
- Reasonable
- Partial
- No Assurance



Audit Framework Definitions

Control Assurance Definitions

<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>No Assurance</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/Advice** – 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 unit’s business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and 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 Senior Management and the Audit Committee.



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major <span style="font-size: small;">↔</span> 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	-	-	-	
Transformation	<b>New:</b> Service Mapping Activity	3	Final	Advisory					

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
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.					