

Taunton Deane Borough Council

Corporate Governance Committee – 21 June 2016

SWAP Internal Audit – Internal Annual Opinion Report 2015/16

This matter is the responsibility of Executive Councillor Richard Parrish

Report Author: Alastair Woodland, Assistant Director, SWAP

1 Executive Summary

- 1.1 The Internal Audit function plays a central role in corporate governance by providing assurance to the Corporate Governance Committee, looking over financial controls and checking on the probity of the organisation.
- 2 Internal Audit is required to provide an Annual Opinion on the state of the Internal Control Environment. This report provides that Opinion based on the work undertaken during 2014-15. This work will support the Annual Governance Statement.

3 Recommendations

- 3.1 Members are asked to note the Annual Opinion on the effectiveness of the internal control environment in the delivery of TDBC objectives.

4 Risk Assessment

- 4.1 Any large organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. TDBC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement.

Risk Matrix

Description	Likelihood	Impact	Overall
	?	?	?
<i>The mitigations for this are the proposed changes as set out in the report</i>	?	?	?

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

5 Background

5.1 This report summarises the work of the Council's Internal Audit Service and provides:

- Details a summary of the key risks that were identified during the 2015-16 financial year.
- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

5.2 The Internal Audit Opinion for 2015/16 is contained within the attached SWAP Report - Appendix A.

6 Links to Corporate Aims

6.1 Delivery of the corporate objectives requires strong internal control. The attached report provides a summary of the audit work carried out to date this year by the Council's internal auditors, South West Audit Partnership.

7 Finance

7.1 There are no specific finance issues relating to this report.

8 Legal Implications

8.1 There are no specific legal issues relating to this report.

9 Environmental Impact Implications

9.1 There are no direct implications from this report.

10 Safeguarding and/or Community Safety Implications

10.1 There are no direct implications from this report.

11 Equality and Diversity Implications

11.1 There are no direct implications from this report.

12 Social Value Implications

12.1 There are no direct implications from this report.

13 Partnership Implications

13.1 There are no direct implications from this report.

14 Health and Wellbeing Implications

14.1 There are no direct implications from this report.

15 Asset Management Implications

15.1 There are no direct implications from this report.

16 Consultation Implications

16.1 There are no direct implications from this report.

Democratic Path:

- **Corporate Governance Committees – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

Reporting Frequency: **Once only** **Ad-hoc** **Quarterly**
 Twice-yearly **Annually**

List of Appendices (delete if not applicable)

Appendix A	SWAP Annual Opinion Report 2015/16
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Taunton Deane Borough Council

Report of Internal Audit Activity

Annual Opinion Report 2015/16

Contents

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Summary:

Purpose & Background

Page 1-2

Annual Opinion

Page 3-4



Summary of Audit Work:

Internal Audit Work Programme

Page 5

Significant Corporate Risks

Page 6

Summary of Audit Opinions 2015-16

Page 7

Yearly Comparison of Priority Actions

Page 8



Plan Performance:

Added Value

Page 9

SWAP Performance

Page 10-11



Appendices:

Appendix A – Audit Framework Definitions

Page 12-13

Appendix B – Summary of Work Plan

Page 14-16

Summary

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



Purpose

The Accounts and Audit Regulations (England) 2011 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 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 actually 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.



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 South West Audit Partnership Limited (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 Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

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. Under control could expose the organisation to unacceptable risk and destroy value as over control takes valuable resources and can create inefficiency. Therefore the Internal Control Environment needs the right balance to help Taunton Deane Borough Council to deliver its services with ever decreasing resources.

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 and as such it is one source of assurance on the adequacy of the internal control environment.

For the 2015-16 audit plan for Taunton Deane Borough Council there will be a total of 29 reviews 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.

Most audits have been completed to report stage. There remain six reviews currently being drafted; these reviews will remain a priority for completion.

Of the 29 2015-16 reviews, 16 have returned opinions with five (31%) having received Partial Assurance. I am encouraged by the management response and readiness to accept and address the matters raised in audit reports. There have been six (38%) reviews that have received a Substantial Assurance and this is highly commendable with, five (31%) reviews also receiving Reasonable Assurance.

Internal Audit Annual Opinion 2015/16

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

There were also six reviews from 2014-15 that were reported during 2015-16, these being Software Asset Management, Hardware Asset Management, ICT Financial Key Controls, Choice Based Lettings, Asset Management, Commercial Rents. Five of these audits returned a Partial Assurance Opinion and have been taken into consideration when forming my opinion on the internal control environment for 2015-16.

I have considered the balance of audit work in 2015-16 and the six 2014-15 reviews, the assurance levels provided, profile of each audit and outcomes together with the response from Senior Management and offer '**Reasonable Assurance**' in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives. As a note I would say looking back over the last four years, the percentage of reviews that have returned a Partial Assurance Opinion within the annual plan has slowly been increasing.

I believe that the Senior Management of Taunton Deane Borough Council has worked hard to cooperate with the audit process and while there have been difficulties in progressing some audits expediently, I recognise the pressures they face through managing the changing environment. However, we will be looking to introduce a new protocol on 'Delivering Effective Internal Audit' that places obligations on both SWAP and management at TDBC to ensure audits are progressed as expediently as possible.

Summary of Audit Work 2015/16

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Special Reviews
- 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 2015-16 and the final outturn for the financial year. In total, 29 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 29 reviews in the revised 2015-16 audit plan, they are broken down as follows:

Type of audit	2015-16 original plan	2015-16 revised plan
• Operational Audits	9	9
• Information Systems	4	3
• Key Control	8	8
• Governance, Fraud & Corruption	5	4
• Grants	0	1
• Special Reviews	0	0
• Follow-up	2	4
• TOTAL	28	29

Summary of Audit Work 2015/16

Significant Corporate Risks

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



Significant Corporate Risks

We provide a definition of the 4 Risk Levels applied within audit reports. For those audits which have reached report stage through the year, we have assessed the following risks as 'High' or 'Very High'.

Review/Risks	Auditors Assessment
ICT Disaster Recovery (2015-16) 'Key business operations cannot be recovered on a timely basis when a disaster occurs'.	High
Housing Voids (2015-16) 'The quality of any maintenance/repairs carried out to a void property does not meet, or exceeds, the required Lettable Standard.'	High
Housing Voids (2016-16) 'Poor budgetary control within the voids process resulting in excessive costs.'	High

Members should note that maintaining continuity of disaster recovery arrangements will be a key risk if and when changes are made with the SWO Contract. We are currently following up on the Disaster Recovery weaknesses.

The two Housing Voids risks are due to be followed up in quarter 2 of the 2016-17 plan.

Summary of Audit Work 2015/16

SWAP Performance - Summary of Audit Opinions

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

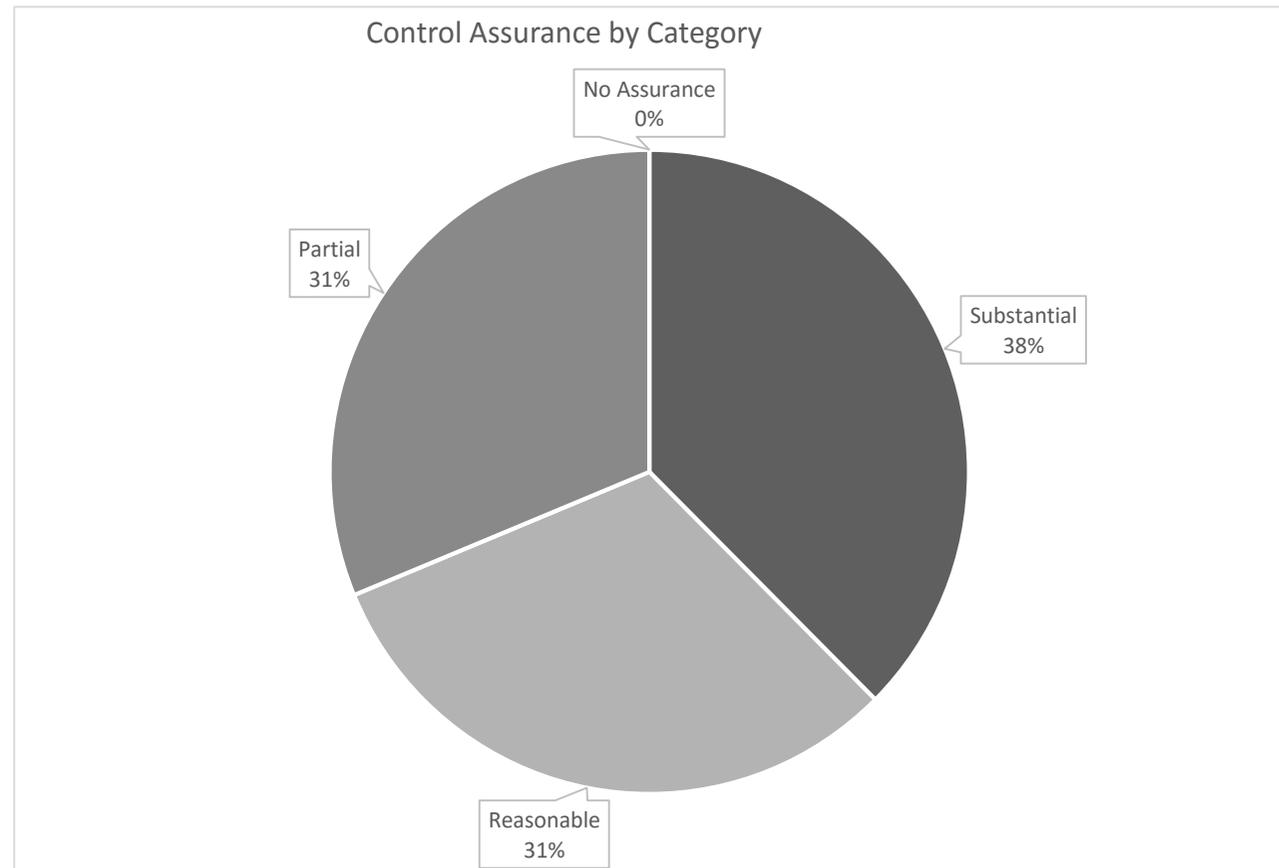
- Substantial
- Reasonable
- Partial
- No Assurance

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



Summary of Audit Opinion

Taking out the 6 incomplete 2015-16 reviews, the Non-Opinion and follow up reviews, leaves 16 reviews where an opinion was given. The breakdown is summarised as follows:



Summary of Audit Work 2015/16

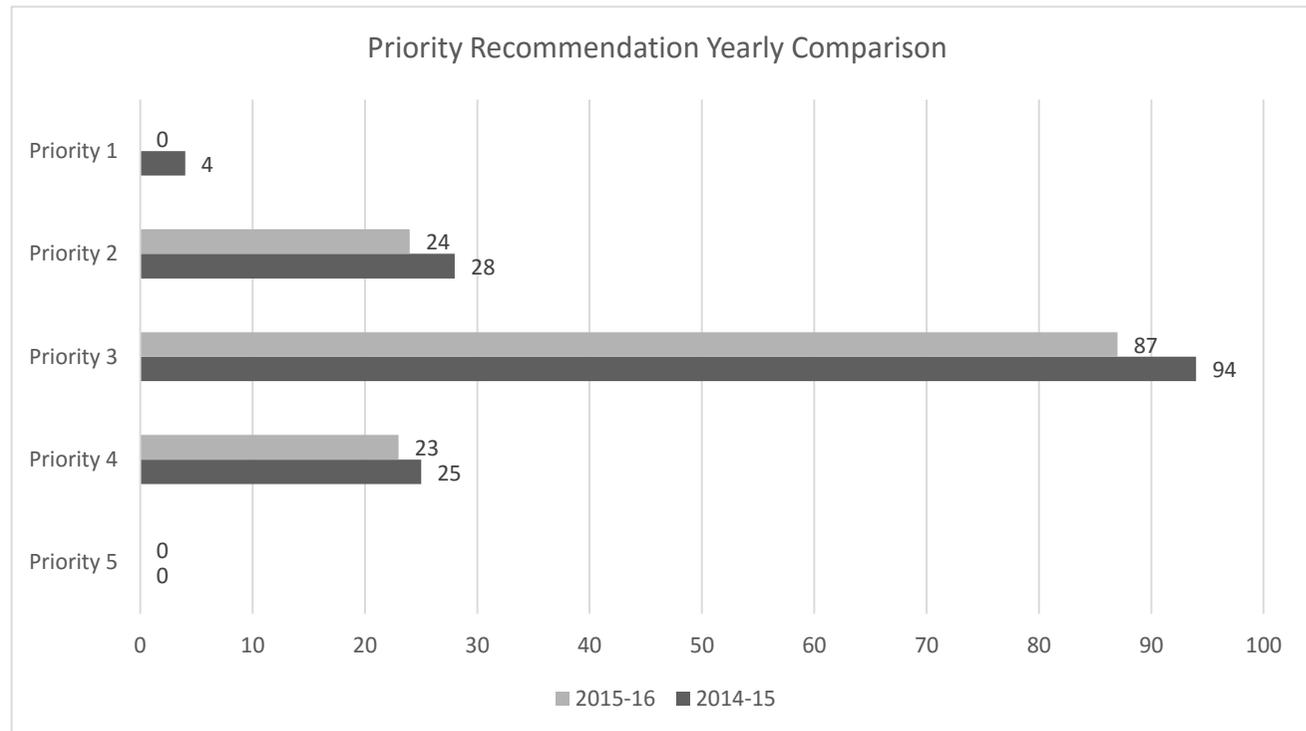
SWAP Performance - Summary of Audit Recommendations by Priority



We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action

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 5 recommendations being more important than priority 1. All recommendations as currently contained in **Appendix B** are summarised below and compared to the previous year. Note there are six review not complete that will increase the figures for 2015-16.



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”.

The following have provided added value for the Council.

- Regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- Planning Guarantee - Highlighting the risks of not meeting the timeframes of the Planning Guarantee and comparison of procedures with other Councils
- Performance Management – At Mendip District Council a Performance Management benchmarking exercise was carried out that included information from TDBC. A summary report was produced and circulated to all authorities that submitted information.
- Business Continuity - This audit has been performed at five authorities and an overarching report was issued which summarised and compared findings; gives examples of good practice; and includes a section on Landlord responsibilities.



Plan Performance 2015/16

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 14 Councils 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 2015-16 year (as at 9/6/16) are as follows;

Performance Target	Average Performance
<p><u>Audit Plan – Percentage Progress</u></p> <p>Final, Draft and Discussion 83%</p> <p>Fieldwork Completed awaiting report 17%</p> <p>In progress 0%</p>	
<p><u>Draft Reports</u></p> <p>Issued within 5 working days of fieldwork completion 73%</p>	
<p><u>Final Reports</u></p> <p>Issued within 10 working days of draft report 69%</p>	
<p><u>Quality of Audit Work</u></p> <p>*Customer Satisfaction Questionnaire 83%</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 and professionalism. A score of 80% would reflect the fact that the client agreed that the review was delivered to a good standard of quality.

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 carried out such an assessment in 2012 and at that time agreed that it would be best practice to complete such a review every three years and therefore we commissioned our next review to take place in September 2015. This review has now been completed and again confirmed SWAP to be in full conformance to the International Professional Practices Framework and the PSIAS. As a result of the quality review, a Quality Assessment Improvement Plan (QAIP) is produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

And finally, just like any other Company and Taunton Deane Borough Council itself, our accounts are subject to both Internal and External Audit Review. The auditor confirmed that the audit did not find any areas of concern and the auditor was confident that the processes in place are adequate to support SWAP's annual report and financial statements.

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

Substantial	▲ ★ ★ ★	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.
Reasonable	▲ ★ ★ ★	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.
Partial	▲ ★ ★ ★	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.
No Assurance	▲ ★ ★ ★	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.

Recommendations are prioritised from 1 to 5 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 5: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

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.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← 5 = Major				
						Recommendation				
						1	2	3	4	5
Follow Up	Parks & Open Spaces	Q1	Final	Follow Up	3	0	0	2	1	0
Follow Up	Data Transparency	Q1	Final	Follow Up	3	0	2	0	1	0
Governance, Fraud & Corruption, Cross Cutting	Business Continuity	Q1	Final	Reasonable	4	0	0	4	0	0
Governance, Fraud & Corruption, Cross Cutting	Business Incentive Grants	Q1	Final	Partial	11	0	3	7	1	0
ICT Audits	Disaster Recovery Audit	Q1	Final	Partial	5	0	0	1	4	0
Operational Audit	Crematorium	Q1	Final	Non-Opinion	3	0	0	2	1	0
Operational Audit	Housing Voids	Q1	Final	Partial	17	0	2	9	6	0
Governance, Fraud & Corruption, Cross Cutting	Declaration of Interests, Gifts and Hospitality & Ethical Standards	Q2	Final	Reasonable	5	0	1	4	0	0
Governance, Fraud & Corruption, Cross Cutting	Cash & Banking	Q2	Final	Reasonable	22	0	6	16	0	0
Operational Audit	Food Safety	Q2	Final	Substantial	9	0	2	7	0	0
ICT Audits	Information Systems - Property Management	Q2	Final	Non-Opinion	0	0	0	0	0	0
Grant	Repair & Renewal Grant (New)	Q3	Final	Non-Opinion	0	0	0	0	0	0
Key Control	Main Accounting	Q3	Final	Substantial	3	0	2	1	0	0
Key Control	Council Tax & NNDR	Q3	Final	Substantial	2	0	2	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← 5 = Major				
						Recommendation				
						1	2	3	4	5
Key Control	Debtors	Q3	Final	Reasonable	4	0	0	4	0	0
Key Control	Payroll	Q3	Final	Substantial	1	0	0	1	0	0
Key Control	Treasury Management	Q3	Final	Substantial	2	0	1	1	0	0
Follow Up	Business Grants Follow Up (from follow up contingency)	Q4	Final	Follow-up	0	0	0	0	0	0
Operational Audit	DLO Stores	Q2	Draft	Partial	11	0	0	4	7	0
Operational Audit	Gas Servicing	Q2	Final	Reasonable	8	0	3	5	0	0
Key Control	Creditors	Q3	Review	-	-	-	-	-	-	-
Operational Audit	DLO Operations (NEW)	Q3	Draft	Non-Opinion	14	0	0	14	0	0
Key Control	Housing Benefits & Council Tax Support	Q4	Final	Substantial	0	0	0	0	0	0
Operational Audit	Deane Help Line	Q4	Review	-	-	-	-	-	-	-
Operational Audit	Land Charges	Q4	Discussion Document	Partial	7	0	0	5	2	0
ICT Audits	Physical and Environmental Controls/Data Centre	Q4	Review	-	-	-	-	-	-	-
Follow Up	Disaster Recovery Audit (from follow up contingency)	Q4	Review	-	-	-	-	-	-	-
Key Control	Housing Rents	Q2	Review	-	-	-	-	-	-	-

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← 5 = Major				
						Recommendation				
						1	2	3	4	5
Operational Audit	Homelessness	Q4	Review	-	-	-	-	-	-	-
ICT Audits	Information Systems – Finance (Time carried over to 2016-17 Plan for additional IT Audit Work).	Q2	Dropped	-	-	-	-	-	-	-
Governance, Fraud & Corruption, Cross Cutting	Transformation Programme (5 days to DLO Audit to cover additional work).	Q3	Dropped	-	-	-	-	-	-	-
Operational Audit	Housing - Responsive Maintenance (Dropped due to 4 additional work areas requested by Terry May. For inclusion in 2016-17 Audit Plan evaluation).	Q4	Dropped	-	-	-	-	-	-	-