

Taunton Deane Borough Council

Corporate Governance Committee – 20 June 2017

SWAP Internal Audit – Internal Annual Opinion Report 2016/17

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 2016-17. 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 2016-17 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 2016/17 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)

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Taunton Deane Borough Council

Report of Internal Audit Activity

Annual Opinion Report 2016/17

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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 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 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 Defense 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. 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.

For the 2016-17 audit plan for Taunton Deane Borough Council there will be a total of 27 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.

All reviews except one have been completed to report stage. Of the 27 2016-17 reviews, 13 have returned opinions with four (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 two (15%) reviews that have received a Substantial Assurance and this is highly commendable with, seven (54%) reviews also receiving Reasonable Assurance.

Internal Audit Annual Opinion 2016/17

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

It is also worth noting the number of 'Non-Opinion' audits during 2016-17. 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, details of the work and findings are shared with the Committee and an action plan to address areas for improvement is agreed.

I have considered the balance of audit work in 2016-17 and 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.

In keeping with the public sector in general, there continues to be challenges for the Senior Management at Taunton Deane Borough Council. If the Secretary of State for Communities and Local Government approves the formation of a new Council covering West Somerset and Taunton Deane there will be significant challenges and risks ahead to ensure this is delivered successfully. In particular, the utilisation of officers/staff on the various transformation projects could have an impact in the short term on the effectiveness of the control environment and performance of the authority. Acceptable risk taking will be required to deliver the transformation projects successfully and maintain services to an acceptable standard.

Summary of Audit Work 2016/17

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 2016-17 and the final outturn for the financial year. In total, 27 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 27 reviews in the revised 2016-17 audit plan, they are broken down as follows:

Type of audit	2016-17 original plan	2016-17 revised plan
• Operational Audits	5	5
• Information Systems	4	3
• Key Control	8	8
• Governance, Fraud & Corruption	7	6
• Grants	0	0
• Special Reviews	0	0
• Follow-up	5	5
• TOTAL	29	27

The variation in relation to the total number of projects relates to the 'ICT Help Desk Support audit' being dropped and the time allocated to the 'New Financial System audit' and the deferred Transformation Programme audit, which has been added to the 2017-18 plan.

Summary of Audit Work 2016/17

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 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'.

The following are the significant (High) risks identified during the course of our audit programme of work. Weaknesses around the Crematorium will be followed up in quarter 2 of 2017-18. This is to allow the new manager time to make the necessary changes.

Review/Risks	Auditors Assessment
Crematorium (2016-17) 'Loss of Income – there is no accountability or sufficient income controls in place'	High
Crematorium (2016-17) 'Loss of key staff will impact on service delivery and continuity'	High
South West One Exit (2016-17) 'Project outcomes are not achieved within timescales or budgets leading to risk of non-delivery of key functions (e.g. debtors, creditors, payroll, website)'	High

Summary of Audit Work 2016/17

SWAP Performance - Summary of Audit Opinions



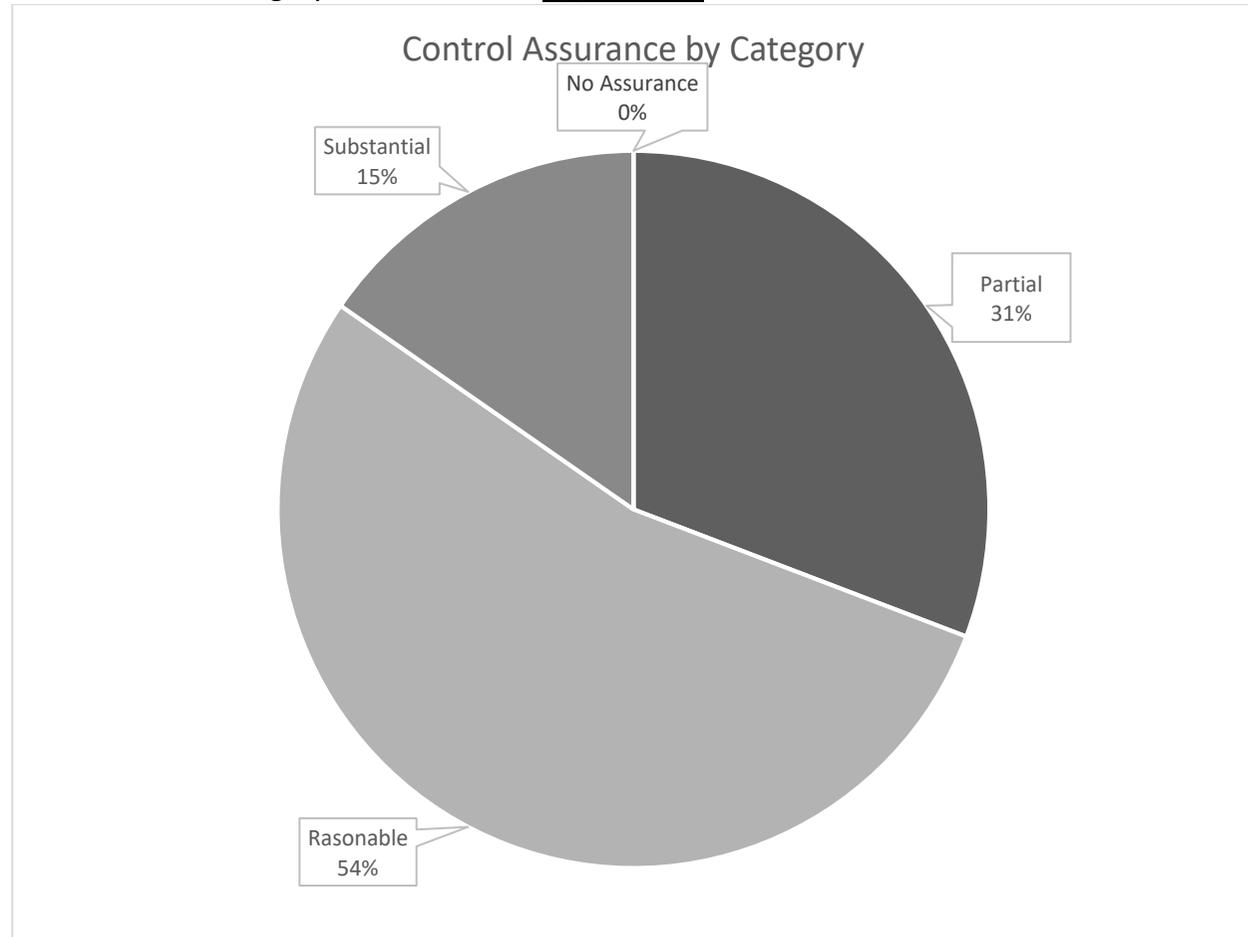
Summary of Audit Opinion

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.

Taking only the reviews that return an audit opinion, the breakdown is summarised below. Definitions for each assurance category can be found in [Appendix A](#).



Summary of Audit Work 2016/17

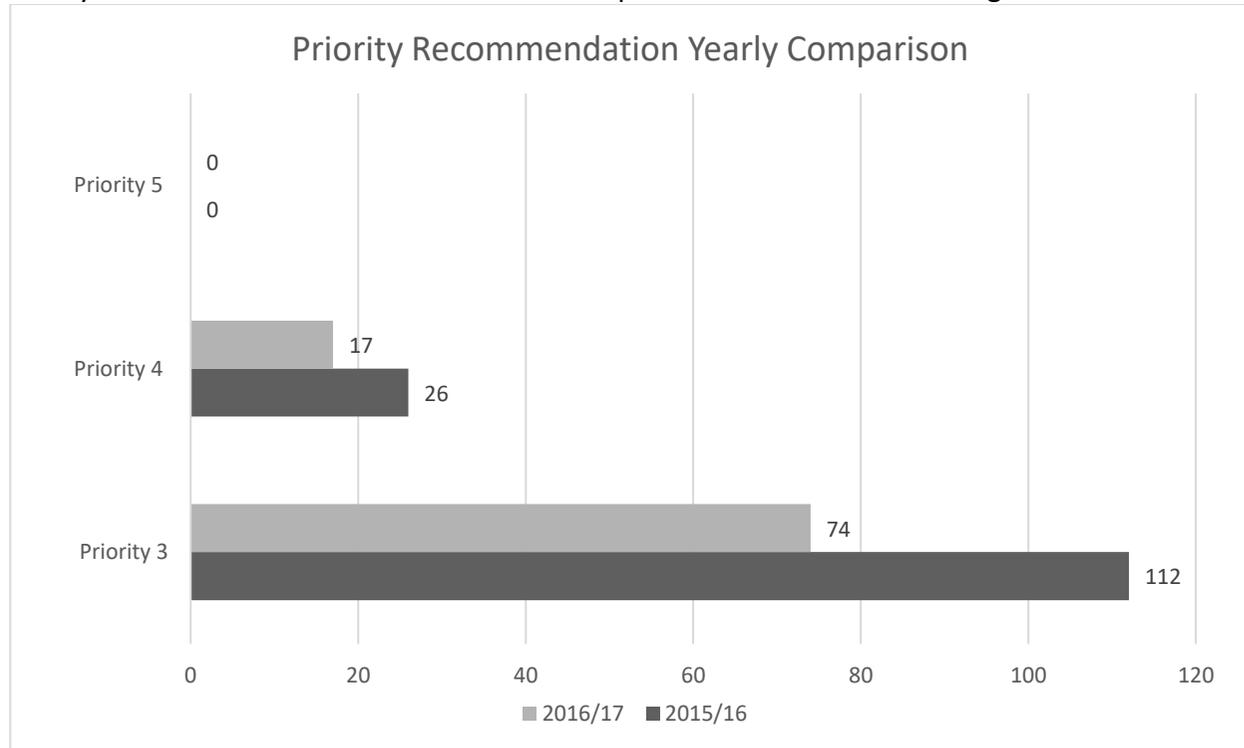
SWAP Performance - Summary of Audit Recommendations by Priority

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 five reviews not complete that will increase the figures for 2016-17.



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:

- Regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- Comparison of debt recovery policies across all SWAP Partners.
- Planning Fees Refund comparison resulting from the Planning Guarantee that was introduced on the 1 October 2013 and steps to ensure the LA does not fall foul of the Guarantee.
- Comparison of Social Media Policies across SWAP partners for best practice.
- Health & Safety Training comparison across SWAP partners.
- Section 151 Officer Assurance Map.
- Pest Control survey comparison on structure, costs and pricing.
- Cyber Security Staff Awareness and Training Advice Report.
- Fees & Charges comparison to see if there was a clear rationale, and calculations to support the fees and charges set, for the sample of discretionary services.



Added Value Continued

- Equality Impact Assessment Process comparison.
- Audit Committee Work Plans comparison.
- Land Charges Service comparison on staffing structure, response times & workload.
- Housing Benefits Service Delivery performance comparison.

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, 3 Police Authorities, 3 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 2016-17 year are as follows;

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u>	
Final, Draft and Discussion	96%
Fieldwork Completed awaiting report	96%
In progress	100%
<u>Draft Reports</u>	
Issued within 5 working days of fieldwork completion	63%
<u>Final Reports</u>	
Issued within 10 working days of draft report	40%
<u>Quality of Audit Work</u>	
*Customer Satisfaction Questionnaire	83%

*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, i.e. agreed with the statement in the questionnaire and satisfied with the audit process and report.

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 again in 2016. SWAP was found 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.

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.

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.

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 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	IT Hardware Asset Management	Q1	Final	Follow up	0	0	0	0	0	0
Follow up	Software Asset Management	Q1	Final	Follow up	4	0	0	3	1	0
Operational Audit	Crematorium	Q1	Final	Partial	12	0	0	5	7	0
Follow Up	Commercial Rents	Q1	Final	Follow up	3	0	0	2	1	0
Governance, Fraud and Corruption	Absence Management	Q1	Final	Reasonable	5	0	0	5	0	0
Governance, Fraud and Corruption	Members Expenses	Q1	Final	Reasonable	6	0	0	6	0	0
Governance, Fraud and Corruption	Imprest/Cash Spot Checks	Q1	Final	Partial	5	0	0	4	1	0
Operational Audit	Licensing	Q2	Final	Reasonable	6	0	0	6	0	0
Follow up	Housing Voids	Q2	Final	Follow up	5	0	0	5	0	0
ICT	User Management (Starters and Leavers - HR, Facilities, ICT)	Q2	Final	Partial	7	0	0	6	1	0
Governance, Fraud and Corruption	SWO Succession planning	Q2	Final	Non-Opinion	0					
Follow up	Asset Management	Q2	Final	Follow up	8	0	1	3	4	0
Key Control	Council Tax & NNDR	Q3	Final	Substantial	3	0	0	3	0	0
Key Control	Housing Benefits	Q3	Final	Substantial	4	0	0	4	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major				
						Recommendation				
						1	2	3	4	5
Governance, Fraud and Corruption	Building Control Partnership	Q3	Final	Non-Opinion	12					
Key Control	Creditors - Data Analysis	Q3	Final	Non-Opinion	3	0	0	3	0	0
Key Control	Debtors	Q3	Final	Reasonable	4	0	0	4	0	0
ICT	New Financial System (<i>Quarter 2,3,4</i>)	Q2, Q3, Q4	Final	Non-Opinion	-	-	-	-	-	-
ICT	SWOne Exit Support/ Advice Days (<i>Quarter 2,3,4</i>)	Q2, Q3, Q4	Final	Non-Opinion	-	-	-	-	-	-
Key Control	Main Accounting	Q3	Final	Reasonable	5	0	0	5	0	0
Operational Audit	Supported Housing (both Extra Care and Sheltered)	Q4	Final	Reasonable	5	0	0	5	0	0
Key Control	Payroll	Q4	Final	Reasonable	3	0	0	2	1	0
Operational Audit	DLO Open Spaces - External Payment Invoices	Q4	Final	Partial	7	0	0	6	1	0
Draft Report										
Operational Audit	Capital Programme Approval & Monitoring / linked with Contract monitoring	Q2	Draft	Reasonable						
Key Control	Treasury Management	Q3	Draft	Substantial						
Key Control	Housing Rents	Q4	Discussion Document							

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major				
						Recommendation				
						1	2	3	4	5
In Progress										
Governance, Fraud and Corruption	Information/Data Security/Data Protection	Q4	In Progress							