

Taunton Deane Borough Council

Report of Internal Audit Activity

Plan Progress 2018/19 September 2018

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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 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 this Committee 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 2017/2018

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 June 2018 update the following audits have been finalised.

Audit Area	Quarter	Status	Opinion
2018/19			
Use of non-contracted suppliers - DLO	1	Final	Follow Up
Crematorium Service Review	1	Final	Partial
Housing Compliance - Gas Safety	1	Final	Follow Up
DLO External Income	1	Final	Follow Up
GDPR - Members Awareness Training	1	Final	Advisory
Parking Maintenance	1	Final	Follow Up
2017/18			
Disaster Recovery	4	Final	Reasonable
Payroll	4	Final	Partial

Internal Audit Plan Progress 2017/2018

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 an minor concern that requires management attention.



Internal Audit Work

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

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 March 2018 update there are two 'Partial Assurance' reviews I need to bring to your attention, these being the Crematorium Service Review and the Payroll Key Control review. I have also provided further details on the follow up audits, so Members will be aware of progress made against previously reported partial and no assurance audits. Further details can be found within [Appendix C](#).

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

Approved Changes to the Audit Plan

The audit plan for 2017/18 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 Audit Client Officer.

Since the June 2018 update there are a couple of plan changes that I need to bring to your attention.

- Due to the phase one recruitment it has been necessary to push the Homelessness Reduction Act Audit back from quarter 2 to quarter 4. To accommodate this the Growth Agenda - Project and Programme Development audit focusing on the Coal Orchard development has been brought forward from quarter 4.
- Payroll Contracted Service Review – This audit was in the plan to review the delivery of the new payroll contract arrangements. Although there were some concerns in this area the service has improved and now the time for this audit is being moved towards the transformation programme.

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



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- No Assurance
- Non-Opinion/Advisory

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/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.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendations 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 Senior Management & the Audit Committee.

Summary of Key Audit Findings

APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ← → 3 = Minor			Comments
						Recommendation			
						1	2	3	
FINAL									
Follow-up	Use of non-contracted suppliers - DLO	1	Final	Non-Opinion	2	-	2	-	
Operational	Crematorium Service Review	1	Final	Partial	6	2	4	0	
Follow-up	Housing Compliance - Gas Safety	1	Final	Non-Opinion	-	-	-	2	
Follow-up	DLO External Income	1	Final	Non-Opinion	6	-	1	5	
Governance, Fraud & Corruption	GDPR - Members Awareness Training	1	Final	Non-Opinion	-	-	-	-	
Follow-up	Parking Maintenance	1	Final	Non-Opinion	3	0	0	3	
DRAFT									
Operational	Housing Compliance (Fire Safety Management)	1	Draft						
Key Control Audit	Housing Rents	2	Review						
Governance, Fraud & Corruption	Insurance Arrangements	2	Review						
Governance, Fraud & Corruption	GDPR - Action Plan Progress	2	Review						

Summary of Key Audit Findings

APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ← → 3 = Minor			Comments
						Recommendation			
						1	2	3	
IN PROGRESS									
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						
Information & Communication Technology	Universal Transaction Portal	1 to 3	In Progress						
Governance, Fraud & Corruption	Growth Agenda - Project and Programme Development	2	In Progress						
NOT STARTED									
Transformation	Strategic Framework	1 to 4							
Information & Communication Technology	Refresh of Network Security Infrastructure	2 to 3							
Information & Communication Technology	Programme of Consolidation	2 to 4							
Key Control Audit	Creditors	3							
Key Control Audit	Debtors	3							

Summary of Key Audit Findings

APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
Key Control Audit	Treasury Management	3							
Key Control Audit	Main Accounting	3							
Operational	Homelessness Reduction	4							
Key Control Audit	System parameter Testing	4							
DROPPED									
Key Control Audit	Payroll System (Contract Arrangement)	2							Time to transformation.

Outstanding 2017/18

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
ICT	Disaster Recovery	Q3	Final	Reasonable	3	0	0	3	0	0	
Key Control	Payroll	Q4	Final	Partial	11	0	0	9	2	0	

Audit Assignments completed since the June 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 and High Priority Service Findings

The following information provides a brief summary of each audit review finalised since the last Committee update in June 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 June 2018 update there are two Partial Assurance audit opinions that I need to bring to your attention and four follow up audits updated on previously reported areas of weakness.

Operational Audits

Operational audits are a detailed evaluation of a Service’s control environment. A risk matrix is devised and controls are tested that mitigate those risks. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Crematorium – Partial Assurance

The Taunton Deane Bereavement Service carries out over 2000 cremations and 300 burials per annum. It operates five cemeteries covering 56 acres which are open to the bereaved every day of the year. Total income per year is circa £1.7 million.

The last full audit review was carried out in August 2016 and awarded partial assurance and was followed up in July 2017, although six of the 15 recommendations had been implemented, nine were still in progress. Since the original Audit a new Bereavement Service Manager and Registrar has been appointed. He has made changes to the way the service is being run including the introduction of new memorial options and increasing the number of available graves within the cemeteries owned by the Council.

Audit Assignments completed since the June 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.

Operational Audits Continued

We recognise the hard work of the Bereavement Service Manager and Registrar since his arrival in December 2016 and his staff following the publication of our previous follow-up report in July 2017. We note that numerous procedures have been drafted to guide staff on the use of the Crematory, E5, grounds and office. We also note improvements around the monitoring and reporting of the service’s financial position. The Bereavement Service principally delivers an essential and valued service to members of the public however, it also provides an essential revenue stream for the Council as recent budget monitoring reports have proven.

The common theme with our findings of this review is that the Cemetery/Crematorium System Administration System (CAS) is not fit for purpose. This has been pointed out in our previous reviews and has been acknowledged by Management. We do realise that Management have been making efforts to move the procurement of a new Administration System forward but have been delayed by other higher priorities related to the wider transformation of the Council. The need for a replacement CAS system is the principal, priority 4, finding in this report and heavily influences the partial opinion offered, along with the need for a baseline Plan of Graves, recorded and reconciled to the replacement CAS system and the subsequent monthly reconciliation of internal paperwork to the new CAS system.

As previously mentioned the Bereavement Service is a key income stream for the Council. The Bereavement Service Manager and Registrar has identified areas of growth which could result in the commercial development of the Bereavement Service; we note that Senior Management have recognised this too, which may lead to the service being organised and positioned differently in order to achieve that goal. This will no doubt ensure specialist skills and knowledge is retained within the Bereavement Service. However, these areas of growth are yet to be documented in a Business Case/Service Plan. This has also been identified as a key finding and has been scored priority 4 accordingly. To bring about valued change such areas of growth need to be documented and presented to Senior Management and Members for further consideration and acceptance.

Audit Assignments completed since the June 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.

Key Control

Key Control Audits are completed as an assessment of the Council's financial control environment. It is essential that all key controls are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control. Financial controls underpin the statement of accounts.

Payroll 2017-18 – Partial Assurance

Since the previous audit significant work has been carried out with the roll out of iTrent and the employee self-service. The HR Project Officer, who was initially involved in the implementation of the new system has taken on a greater role of overseeing the payroll function, including reviewing all exception reports prior to sign-off. The controls overseeing the Payroll function are still at a formative stage, and we found a lack of audit trail at various stages within our testing and a need to develop some of the authorisation processes. Although involved in the set-up of the HRIS the HR Project Officer is new to Payroll processing and has recently completed a Payroll Technician’s course to build her knowledge in this area as well as networking with colleagues in South Somerset and Banes who use the same HRIS.

There is currently an opportunity for the HR Project Officer to be involved in all elements of the Payroll process; creating posts, adding new starters, reviewing payroll reports. However, the final authorisation for release of payments from the bank has to come from one of four senior managers within TDBC. The HR Project Officer is the only officer with system administration access to the database. Whilst this may have been required in initially setting up the system, there is now a requirement to look at whether these processes are satisfactory as currently there is no separation of duties on some payroll changes exposing the Council to potential financial loss through error or fraud.

Weaknesses within this audit are higher risk, to some extent, due to the implementation of e5 and the delays in carrying out full budget monitoring. Although this is acknowledged to be outside of the control of the payroll team, detailed budget monitoring would act as a mitigating control.

Audit Assignments completed since the June 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.

Key Control Continued

It is evident from our testing that the new payroll system processes are not fully embedded and the system is not being utilised to its full extent. For example, temporary changes such as fixed term contracts and honorariums are being monitored using a spreadsheet as opposed to iTrent which is an accepted risk whilst delivering the Transformation project where there is a high volume of temporary adjustments to monitor.

Other key findings include the continued use of paper-based files and the inaccessibility of these. During testing it was found key forms were not filed properly, resulting in difficulties and delays with obtaining the information. It was also found that the authorised signatory list has not been updated following a recommendation on the previous audit, and is still in paper format, despite most of the forms being sent to payroll via email.

Follow Up Audits

Follow up reviews are undertaken where a previous audit has returned a 'Partial Assurance' or 'No Assurance'. This is to provide assurance to the Corporate Governance Committee that areas of weakness have been addressed. Follow up reviews will only focus on the areas of weakness identified in the original review and are usually undertaken 6 months after the original review to allow time for recommendations to be implemented.

Use of non-contracted suppliers – Follow Up

In the Use of non-contracted suppliers at the DLO audit report issued in July 2017 we offered partial assurance in relation to the areas reviewed. Some key risks were not well managed, and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

Audit Assignments completed since the June 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.

Follow Up Audits Continued

Eight recommendations were raised under the single risk, two were given a priority score 4 and six were assigned a priority score 3. Whilst carrying out this follow-up audit management were asked to feedback what progress they had made against the recommendations raised under the risk. The table below summarises the progress made:

	Complete	In Progress	Not Started	Not Due
Priority 4	-	Two	-	-
Priority 3	Six	-	-	-
Total	Six	Two	-	-

With regards to the priority 4 recommendations showing as ‘in progress’ it should be noted that the first recommendation relates to a finding about the Council’s Contract Procedure Rules and how it was found there was excessive flexibility within paragraph 17 that could be exploited by the DLO to avoid applying standard procurement practices. It was recommended that this paragraph was removed. Management has explained that due to Transformation the Council is working on developing a new constitution for the new Council to be up and running by April 2019 and therefore it made more sense for changes to be fed into this process rather than changing the existing constitution for just a few months. Taking into consideration the transformation taking place at the Council this is reasonable.

The second recommendation related to the absence of standard procurement practices being applied for non-contracted suppliers and two non-contracted suppliers being used for considerable lengths of time. It should be noted that one of these non-contracted suppliers is now employed by the Council. Staff have an awareness that smaller sub £15k thresholds are now being tendered. For work above approximately £5k, formal quotes are now sought generally under competition.

Audit Assignments completed since the June 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.

Follow Up Audits Continued

For works below £1k reference is generally made to the agreed hourly rate. Management has confirmed that areas of spend have been investigated and priorities agreed going forward. The Council has also signed up to the Devon and Somerset list of approved contractors (SLOAC). No formal training plan has been delivered to date, but Management will review staff training requirements upon completion of phase 1 recruitment to the new roles identified within transformation. Taking into consideration the transformation taking place at the Council this appears to be reasonable.

Gas Servicing – Follow up

The following table summarise progress made against the eight recommendations raised in the original audit report.

	Complete	In Progress	Not Started	Not Due
Priority 4	One	-	-	-
Priority 3	Five	Two	-	-
Total	Six	Two	-	-

Out of the eight recommendations raised in the November 2017 report six have been completed. The implementation of Gastag means that Landlord Gas Safety Records (LGSRs) are now generated centrally on the system and where contractors have undertaken installations they can also be swiftly validated. Our review of twenty-five LGSRs found they were received on the day of the gas safety service.

Presently there are two priority 3 recommendations that have not been fully completed, but both are in progress. One recommendation relates to the need for a reconciliation between the housing database and Gastag and the other the completion of a Property Service Business Continuity Plan (BCP). With regards to the former recommendation a reconciliation between both systems was completed for the installation of Gastag, but the yearly reconciliation has not, as yet, been completed. Focusing on the latter recommendation processes have been created to improve resilience, but a BCP has not, as yet, been drafted.

Audit Assignments completed since the June 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.

Follow Up Audits Continued

DLO External Income – Follow Up

The following table summarise progress made against the seven recommendations raised in the original audit Report.

	Complete	In Progress	Not Started	Not Due
Priority 4		One	-	-
Priority 3	One	Five	-	-
Total	One	Six	-	-

Progress has been made against most of the recommendations since the audit was undertaken. However, progress has been delayed, most notably by the implementation of the e5 system. Therefore, actions on developing the process for monitoring outstanding debts, and keeping a sufficient record is outstanding. The service not having access to this data has prevented them from being involved at an early stage to allow for successful recovery, although it is noted that the e5 system was completing dunning automatically from November 2017.

Work on commercialising the external works team has started, separating teams out based on the activity undertaken and ensuring works are recorded against individual contract codes on the financial management system as well as taking some account of overheads. This will allow the Open Spaces Manager to determine the profitability of that team and can also help inform future pricing and income targets for the service. There are also more opportunities to increase the commercial awareness internally, as quotes for works and actual costs are contained within the Open Contractor system there is an opportunity to monitor this periodically by reviewing the return rate on certain jobs and investigating jobs with lower returns for explanation as well as pursuing the more lucrative business once identified.

Audit Assignments completed since the June 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.

Follow Up Audits Continued

Recommendations regarding setting costs and financial targets have revised target, however, it's not yet known how budgets will be set following the formation of a new Council, Transformation and what involvement the Open Spaces Manager will have as these targets may be subject to change.

Parking Maintenance – Follow Up

In the Parking Maintenance audit report issued in October 2017 we offered partial assurance. Six recommendations were raised, three were given a priority score 4 and the remainder allocated a priority score 3. Whilst carrying out this follow-up audit, management were asked to feedback what progress they had made against the recommendations raised. Table 1 summarises the progress made:

	Complete	In Progress	Not Started	Not Due
Priority 4	Three	-	-	-
Priority 3	-	Three	-	-
Total	Three	Three	-	-

It is pleasing to note that the three priority 4 recommendations have been addressed. This has reduced the overall assessment of risk in relation to this area to Low. It is recognised that the three priority 3 recommendations involving the developing of the Car Parking Strategy across Taunton Deane and West Somerset, the Parking Maintenance Plans including that of the Orchard Multi-Storey Car Park are more detailed tasks and understandably their status is still work in progress.