



**SWAP**

**INTERNAL AUDIT SERVICES**

Assuring – Improving – Protecting

# Somerset West and Taunton

Report of Internal Audit Activity

Plan Progress 2019/20 – March 2020

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

Unrestricted

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## Internal Audit Plan Progress 2019/2020

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 Somerset West and Taunton 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 Shadow Corporate Governance and Standards Committee at its meeting in March 2019.

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 the Shadow Corporate Governance Committee and approved at its meeting in March 2019. Audit assignments are undertaken in accordance with this Audit Plan to assess current levels of governance, control and risk.

## Internal Audit Plan Progress 2019/2020

### 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 2019/20. 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.

The following table summarised Audits finalised since the previous update in January 2020:

Audit Area	Quarter	Status	Opinion
<b>2019/20</b>			
Transformation – Lessons Learned	2	Final	Advisory*
Treasury Management	3	Final	Partial
Debtors	3	Final	Partial

\* Reported to Joint Audit and Scrutiny Committee 12<sup>th</sup> February 2020

### **Partial Assurance Audits (See Appendix C)**

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, we will provide further detail to inform Members of the key issues identified.

Since the January 2020 update there are two ‘Partial Assurance/No Assurance’ reviews to bring to your attention: Treasury Management and Debtors. Further details can be found in **Appendix C**.

## Internal Audit Plan Progress 2019/2020

We rank our risks as 'High', 'Medium' or 'low'. Definitions of the risk assessment can be found in Appendix A.

### Internal Audit Work Continued

#### Corporate Risks

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

Since the January 2020 update there is one corporate risk to bring to your attention from the Debtors audit:

- The Authority suffers financial loss, as a result of income not being collected in full or not being subject to appropriate monitoring.

This is due to the size and scale of reduction with invoiced income. Further details regarding the Debtors audit are captured in **Appendix C**.

# Internal Audit Plan Progress Performance

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



## Plan Progress Performance

SWAP now provides the Internal Audit service for 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for Somerset West and Taunton for 2019/20 as at 27 February 2019 were as follows:

Performance Target	Target Year end	Average Performance
<p><b><u>Audit Plan – Percentage Progress</u></b>                      Final, Draft and Discussion                      In progress                      Not Started</p>	>90%	77% 19% 4%
<p><b><u>Quality of Audit Work</u></b>                      Overall Client Satisfaction  <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p>	>95%	100%
<p><b><u>Outcomes from Audit Work</u></b>                      Value to the Organisation  <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p>	>95%	Reported Year end



## Internal Audit Work Plan

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 2019/20 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 Somerset West and Taunton. 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 January 2020 there have not been any changes to the Internal Audit Plan.

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

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



Audit Framework Definitions

**Categorisation of Recommendations**

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

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

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

**Definitions of Risk**

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

# Summary of Key Audit Findings

# APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
<b>FINAL</b>									
Follow Up	Housing - Fire Safety Management Follow Up	1	Final	Advisory	9	4	3	2	-
Follow Up	Supplier Resilience Follow-Up	1	Final	Advisory	6	0	1	5	-
ICT Audit	Migration and integration of key systems for Single Authority (Creditors, Debtors GL)	1	Final	Reasonable	2	0	1	1	-
Governance, Fraud & Corruption	New Council Governance Follow Up	1	Final	Advisory	4	-	-	-	-
Follow Up	Bereavement Service Follow Up	2	Final	Advisory	5	0	2	3	-
Key Control	Payroll System	2	Final	Partial	5	0	0	5	Reported January 2020
ICT Audit	Information Management Project	2	Final	Partial	6	1	4	1	Reported January 2020
Governance, Fraud & Corruption	Transformation - Lesson Learned	2	Final	Advisory	0	0	0	0	Reported to Join Committee Feb 2020.
Key Control	Housing Benefits	3	Final	Reasonable	2	0	0	2	-
Key Control	Council Tax/NDR	3	Final	Reasonable	2	0	0	2	-

# Summary of Key Audit Findings

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						Recommendation			
						1	2	3	
Key Control	Banking arrangements	3	Final	Partial	5	0	1	4	Reported January 2020
Key Control	Debtors	3	Final	Partial	4	2	2	0	See Appendix C
Key Control	Treasury Management	3	Final	Partial	3	0	1	2	See Appendix C
Key Control	System Parameter testing Civica	4	Final	Advisory	0	0	0	0	-
<b>DRAFT</b>									
Key Control	Main Accounting, including budget responsibility	3	Draft						
Key Control	Creditors	3	Draft						
Special Investigation	Whistleblowing Allegation – Housing	3	Draft						
Governance, Fraud & Corruption	Financial Resilience	3	Review						
Governance, Fraud & Corruption	Transition Arrangements	4	Review						
Governance, Fraud & Corruption	Business Continuity Planning (includes links to DR)	4	Discussion Document						
<b>IN PROGRESS</b>									
Key Control	Housing Rents	3	In Progress						

# Summary of Key Audit Findings

# APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
Governance, Fraud & Corruption	Commercial Investments and Income generation strategies	4	In Progress						
Governance, Fraud & Corruption	Risk Management	4	In Progress						
Operational	Housing - Asbestos Management	4	In Progress						
Operational	Building Control Partnership	4	In Progress						
<b>NOT STARTED</b>									
Governance, Fraud & Corruption	Transformation: Benefits Realisation	4	Not Started						
<b>DROPPED</b>									
Governance, Fraud & Corruption	Consultancy Expenditure VFM	2							Replaced by Transformation lessons learned
Governance, Fraud & Corruption	Performance Management	4							Replaced by Whistleblowing Allegation

**Audit Assignments completed since the January 2020 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 January 2020 that has received partial assurance. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review.

### Key Control Audits

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.

#### Debtors – Partial Assurance

The purpose of our review was to ensure that the key system controls are operating effectively for the identification and collection of income and that fraud, error or corruption is minimised.

The new council has continued to use the E5 financial system that was being used by TDBC. A new 'company' was created in E5 and all outstanding debts from the TDBC and WSC systems were transferred to the SWTC accounts. The debt recovery process was put on hold until July 2019 while they awaited the completion of the data input from the WSC system. With the change to a new Council the staffing structure has also changed. Officers' responsibilities have been amended and has meant that some officers have taken on new responsibilities in relation to debt raising and recovery. There has also been changes within the finance specialist team resulting in knowledge loss. Whilst there is a central income team, responsibility still rests with individual services to raise their own invoices.

Our reason for partial assurance is that the value of invoices raised is significantly down when comparing the same period in 2018-19 to 2019-20. There has been a significant reduction in the number of invoices raised

**Audit Assignments completed since the January 2020 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 Audits Continued

across 19 service areas at the Council. One area particularly affected was the DLO, the value and number of invoices raised had dropped significantly during this year as shown in the table below (as at 19 December 2019):

Year	Total number of invoices	Average value of invoice	Total value of invoices
2017-18	1,385	£1,040	£1,440,918
2018-19	967	£1,410	£1,363,003
2019-20	60	£1,579	£94,713

Whilst there was a known and expected reduction in income in this area due to the ending of the schools contract with SCC, this did not end until August 2019 and therefore invoices should have been raised for the five months previous that the contract was in place for. Other DLO external works invoices are raised via an interface however none were raised until November and then only seven jobs were raised at this point. At the same point in the previous year 269 invoices had been raised. Weaknesses were also identified with reconciling the DLO system (Open Contractor) and E5 which meant we had not been able to confirm if this was the point of failure or if it was elsewhere in the process.

Weaknesses were also identified with the budget monitoring process which could identify a reduction in income from invoices not being raised. Budget holders were expected to report any predicted variances to the Finance Specialists to inform the corporate financial performance. If no response was received it was viewed as being in line with the budget. Checks are carried out on the high-risk areas but there was not the capacity to check all budgets and therefore a reduction in income may not have been identified.

Weaknesses have also been identified in the debt recovery process. The initial process is run by the Accounts Receivable team to send out automatically generated reminders. If these are unsuccessful the debt is passed back to the service where a query is identified or it would need to be referred to legal, otherwise it is referred directly to the debt collection agents. This is the point where recovery seems to stall, and debts are not being



**Audit Assignments completed since the January 2020 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 Audits Continued

chased or referred to Legal services when all other methods have been exhausted. The Top 30 Debts (by value) report is shared with SLT on a quarterly basis so Senior Management are likely to be unaware of the many smaller invoices becoming increasingly overdue. Debts have been seen dating back to April 2009 which have not yet been paid or written off. Debts over 90 days overdue account for 4.5% of all invoices raised equating to £1.75m of late or still outstanding debt.

Due to the issues identified we have a review scheduled for April to look into the DLO invoicing arrangements and will be conducting a full Debtors Audit in 2020-21. List below are the Priority 1 and Priority 2 recommendation together with the management responses and timeframe for completion.

### Priority 1 Recommendations – Debtors

Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Only 60 invoices have been raised for the DLO since April resulting in a reduction in income. At point of testing, the service was not able to provide explanation for the shortfall.	Financial loss impacting on the Council’s ongoing financial viability and ability to provide services.	We recommend that the Lead Case Manager works with the Operational Lead to identify all outstanding debts to be raised and ensures that these invoices are created and issued as soon as possible.	Agreed – The issues came to light at a similar time to the Audit being scoped. Officers were brought together to understand the blockers & where in the organisation this task now sits. The DLO had their business support and administration team completely removed as part of transformation leaving them with no one overseeing this process. Meetings have established a route to clear the backlog of invoicing and support has been provided from across the organisation.	31/03/20

## Summary of Key Audit Findings

## APPENDIX C

Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
No reconciliations between Open Contractor and the General Ledger have been completed during 2019-20.	Incorrect financial reporting and failure to raise invoices resulting in loss of income.	We recommend that the Finance Business Partner ensures that reconciliations between Open Contractor and the General Ledger are completed. Procedure notes should be created so that another officer can pick up the reconciliation if required.	I will arrange a meeting between the income/business support team and finance to ensure that the correct reconciliations are undertaken and that procedure notes are then in place.	31/03/20

### Priority 2 Recommendations – Debtors

Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Recovery action is not being progressed after debts have been referred back to the service for action.	A delay in recovery action means that debts cannot be recovered, and the Council incurs financial loss.	We recommend that the Income Specialist ensures that debts referred back to the service are followed up and an officer takes responsibility for this, and periodic checks are undertaken to ensure they have been referred to legal if they are unable to resolve directly with the customer. There should also be increased senior management oversight on the debts returned to services to ensure this is progressing.	Agreed. Will follow up with the services and Business Intelligence are working on improved reporting to senior managers which are almost ready to be issued. This includes new performance indicators beyond the top 30 currently reported.	30/09/20

## Summary of Key Audit Findings

## APPENDIX C

Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
<p>When no response is received to a request to budget holders to confirm predicted variances they are presumed as being on track to meet the budget and not investigated further unless they are high-risk areas.</p>	<p>Budget Monitoring processes do not identify variances in income resulting in a loss of income and failure to meet a balanced budget.</p>	<p>We recommend:</p> <p>a) that the Finance Business Partner ensures that a review of all non-responses to budget monitoring request is carried out to ensure they are working within their budget and the expected income targets are on track to be met.</p> <p>b) That Directors ensure full engagement and compliance of budget holders within their areas to ensure budget management and reporting responsibilities are met.</p> <p>c) That the Finance Business Partner ensures finance specialists undertake a regular critical review of larger variances and appropriately challenge the accuracy of reported variances / non-variances.</p>	<p>a) Next year budget monitoring will be undertaken monthly and therefore for small non-material items it will not be possible to follow up all non-responses monthly but non-responses for material or those budgets we see as more risky will be reviewed monthly. Finance will be review on non-responses on a quarterly basis.</p> <p>b) Agreed</p> <p>c) Agreed on a quarterly basis</p>	<p>30/06/20</p>

**Audit Assignments completed since the January 2020 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 Audits (Continued)**

**Treasury Management – Partial Assurance**

The purpose of our review was to that all loans and investments comply with the treasury management strategy and that suitable safeguards are in place to minimise the risk of fraud.

While we were satisfied the tracking of money was being well managed there had not been any reconciliation between the treasury management records and the general ledger to ensure that the information contained within the general ledger was an accurate reflection of the Council’s financial position. There was also no record to confirm that the records had been reconciled with the brokers statements to ensure that these had been accurately updated whenever a change was made to an investment. While we were informed this was completed, no records of these were kept and therefore we could not provide assurance that they had been completed.

Last year the opinion given was Partial and due to the recurring lack of evidence that all records held reconcile and are an accurate reflection of the financial position we can only provide partial assurance. There are no priority 1 recommendations raised in this review, with one Priority 2 and two Priority 3 recommendations. The Priority 2 recommendation is show below for information. As this area has received a Partial Assurance rating we will follow up this area in 2020-21 to ensure the recommendations have been actioned and report back to this committee.

**Priority 2 Recommendation – Treasury Management**

Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
<p>Reconciliations between the investment and loan records and the General Ledger have not been completed.</p>	<p>Investment/loan costs are missing or inaccurately posted on the General Ledger leading to incorrect financial reporting and reputational damage</p>	<p>We recommend that the Specialist Finance ensures that the Reconciliations between the investment and loan records and the General ledger are carried out and brought up to date and are included in the work plan to ensure they are completed on a monthly basis.</p>	<p>Agreed that reconciliations will be brought up to date in the current financial year and an entry added to the work plan to ensure this is carried out on a monthly basis going forward. In respect of 2020/21 reconciliations there is a need to establish the quickest and best way to reconcile investments and loans and will ensure the Council has a separate sub-nominal code for each counterparty within E5.</p>	<p>31/03/20</p>