

Bath & North East Somerset Council

MEETING:	Audit Committee	
MEETING DATE:	13 th May 2026	AGENDA ITEM NUMBER
TITLE:	Audit and Assurance - Annual Report 2025/26	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Assurance Levels, Appendix 1		

1. THE ISSUE

- 1.1. The work of the Internal Audit Service is to provide independent assurance to the Council's senior officers and members that governance, risk management and controls are sufficient to ensure delivery of the council's objectives. As part of meeting statutory and professional requirements the Head of Audit and Assurance is also required to provide an opinion on the council's internal control environment.
- 1.2. This is the closing Internal Audit Annual Report to the Committee for the financial year 2025/26. Included is a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the Internal Audit Annual Report for 2025/26 and the opinion on the Internal Control environment.

3. THE REPORT

- 3.1. The Audit Committee approved the Annual Internal Audit Plan for the financial year 2025/26 at its meeting of the 30th April 2025.

The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the Council's internal control environment.

In determining the scope, depth, and breadth of the Audit Plan, the Audit Committee accepts limitations in coverage and the inherent risks associated with this. As resources and organisational risks may change dynamically over a year, audit coverage can be affected, and this may impact on the level of assurance achieved through delivering the audit plan.

3.2. HEADLINE INFORMATION FOR THE FINANCIAL YEAR 2025/26

3.2.1. The summary position for the financial year 2025/26 was as follows:

- Work on the 2025/26 plan is almost complete with 63 of 66 pieces of work either finalised, reporting or substantially in progress.
- The Internal Audit service agreed to defer two audits into the following year(s) audit plan and one audit was replaced.
- There was one audit report issued where it was considered that the overall systems of internal control provided 'Limited Assurance'.
- One unplanned audit review was undertaken at the request of senior management.
- Internal Audit have responded to two reports of a small loss of money requiring advice and/or investigation. A further audit review is included in the 2026/27 audit plan for one area, and the internal audit team remain available to provide additional advice when requested.
- Fraud awareness work took place, and this is reported in detail separately within the Counter Fraud Annual Report 2025/26.
- All of the recommendations due to be implemented in 2025/26 were followed-up by the Audit service. It was identified that recommendations from three Internal Audit reviews had not yet been implemented in full.
- The Internal Audit service led on the annual governance review of the Council enabling the Annual Governance Statement 2024/25 to be compiled and included in the Council's Statement of Accounts.
- The state of the Internal Control framework is satisfactory, based on our audit opinions.

3.3. 2025/26 INTERNAL AUDIT WORK – KEY MESSAGES, SIGNIFICANT ISSUES & ASSURANCE LEVELS

3.3.1. From the audit reviews completed in the 2025/26 financial year, there was one audit completed where it was considered that the overall systems of internal control was weak ('Level 2') and only a limited level of assurance could be provided. The audit was in respect of Fleet Management – External Trading Activity and is described in point 3.3.4 below.

3.3.2. There are recommendations that were made in previous audit reports which have not yet been fully implemented, including some that were considered high-risk and have now passed their completion date. These are detailed in section 3.8 of this report.

3.3.3. In addition to the formal reviews carried out as part of the 2025/26 planned programme of work, Internal Audit also provided assurance over a significant volume of grant expenditure. This work primarily relates to externally funded grants, including from the West of England Combined Authority, as well as some

direct award grants from central government departments. Independent assurance was provided to funding bodies, confirming the Council's compliance with the terms and conditions of grant funding, including the appropriate use of grant expenditure. This assurance activity covered certified grant expenditure of £11.5 million, relating to grants with a total value in excess of £56 million.

3.3.4. Fleet Management – External Trading Activity

3.3.5. The key issues identified during the review concerned:

- The Fleet Management service had been delivering profit-generating services to external customers without the appropriate legal framework, as it is not constituted as a Local Authority Trading Company. Legal advice received was that these activities should not continue in their current form.

The Director of Place Management and the Head of Waste complied with this advice immediately and external trading has been ceased.

- Fees and charges applied to some external customers were not consistently aligned with the Council's approved pricing strategy or Financial Regulations. Audit testing identified undocumented discounts for schools, charities, staff, and bulk MOT customers, determined at service level without formal approval or audit trails. The financial impact could not be quantified due to data limitations and changes to Agresso coding.

Several actions were carried out by service management immediately following the audit review to address the issues. This included a review of the fees and charges published on the Council's website and other materials was carried out to verify that they matched those approved by Full Council. Clarification was obtained from Legal Services regarding allowable external trading activities to other public bodies e.g. schools, NHS etc and the list of legally compliant services and corresponding approved fees and charges was disseminated to all relevant staff.

- Several invoicing and billing weaknesses were identified. Excel-based invoices were issued outside the corporate accounting system, increasing risks of error, loss and fraud. Invoicing relied on multiple manual sources, and issued invoices lacked the required detail under Financial Regulations, hindering income recovery and accountability.

Upon receipt of the audit findings, management reviewed staff practices for billing and data management and implemented targeted training, including corporate invoicing protocols and risks of unofficial invoices and use of software and central storage. All invoicing is now only populated via corporate systems. Twice-yearly audits have been scheduled to review billing practices to identify unofficial invoicing and reconcile services delivered and invoices issued. In addition, regular monitoring through scheduled supervision sessions with staff and quarterly staff sessions re. invoicing and billing have been established.

3.3.6. Eight recommendations (One critical, two high, four medium and one low-risk) made during the audit were agreed. The Director of Place Management and the

Head of Waste and Fleet were keen to improve financial controls and were very supportive of, and cooperative with, the audit process throughout.

- 3.3.7. A detailed follow-up audit has been included in the 2026/27 audit plan to confirm that all recommendations have been fully implemented and to provide further advice or guidance where needed, ensuring a clear and sustainable improvement plan is in place for the service.

3.4. **INVESTIGATIONS & UNPLANNED WORK**

- 3.4.1. In addition to the planned internal audit reviews, the Internal Audit team undertook one unplanned audit review, one unplanned investigation, and provided additional advisory support to a further service at the request of senior management.

The investigation, and the advisory support related to two separate incidents, both which involved small cash losses: one at a care home (investigation) and another involving a reported banking loss (advisory support).

3.4.2. Unplanned Work – Children’s Direct Payments

A request was made by Senior Management for Internal Audit to undertake an unplanned review of Children’s Direct Payments. The work examined the consistency of eligibility criteria, the clarity and accessibility of guidance, decision-making for short breaks, and arrangements for issuing, monitoring, and recovering unused payments.

3.4.3. Investigation and Advisory Work

The unplanned investigation was reported to the November Committee and involved a small amount of cash missing from a care home. Although the amount was low, the money belonged to a resident, and the associated paperwork was also missing.

An Internal Audit investigation was conducted alongside HR colleagues, whose work focused on interviewing staff at the home. The investigation concluded that the missing funds could not be located and the exact cause of the loss could not be determined. This was due to weaknesses in local controls at the time of the incident, which meant that cash could go missing without being detected. As the issue was accepted as the responsibility of the home, the resident was reimbursed in full.

A number of findings and recommendations were agreed with the Head of Service – Residential Services, including a recommendation for further audit work. As a result, an audit has been included in the 2026/27 Internal Audit plan to review controls over income collection and the management of residents’ personal monies, providing assurance that similar issues are not present at other residential homes.

3.4.4. The second case of loss of money concerned a £100.00 under banking within the Bath Housing, Welfare and Advice Services team. Internal Audit reviewed the circumstances, identified control weaknesses, and provided advice to help prevent recurrence.

3.5. COUNTER FRAUD

3.5.1. Anti-Fraud and corruption guidance has been provided to services when requested and this has been supplemented by the publication and distribution of the November 2025 Anti-Fraud Bulletin.

3.5.2. A detailed report of all counter fraud related activity that took place in 2025/26 is presented within a separate paper to this Committee meeting. This covers work completed and progress undertaken by the service, including but not limited to:

- National Picture and Emerging Risks
- Work on the National Fraud Initiative (NFI)
- Staff Information and Awareness
- Internal Audit Targeted Work and Investigations.

3.6. COMPLETION OF 2025/26 INTERNAL AUDIT PLAN

3.6.1. There were 66 pieces of audit work within the plan. Of the total number of audits:

- 63 audits had been completed or were at reporting stage / substantially in progress.
- Two audits have been agreed to defer into 2026/27.
- One planned piece of work was replaced.



	Audit Area	Status	Comments
1	FWD Project	Complete	Complete - Grant Claim Reviewed, Tested and Approved
2	Bath City Centre High Street Renewal Project: Love Our High Street Bath HSR	Complete	Complete - Grant Claim Reviewed, Tested and Approved
3	LOHS Local Centres	Complete	Complete - Grant Claim Reviewed, Tested and Approved
4	MSN market Square	Complete	Complete - Grant Claim Reviewed, Tested and Approved
5	HREF	Complete	Complete - Grant Claim Reviewed, Tested and Approved
6	Bath Creative Quarter F&D	Complete	Complete - Grant Claim Reviewed, Tested and Approved
7	Milsom Quarter Project Phase 2	Complete	Complete - Grant Claim Reviewed, Tested and Approved
8	Strategic Masterplanning for BANES Local Plan - Phase 1&2	Complete	Complete - Grant Claim Reviewed, Tested and Approved
9	Future Bright Q3 / Q4 2024/25	Complete	Complete - Grant Claim Reviewed, Tested and Approved
10	Skills Connect	Complete	Complete - Grant Claim Reviewed, Tested and Approved
11	Universal Business Support Service UBS	Complete	Complete - Grant Claim Reviewed, Tested and Approved
12	Somer Valley Rediscovered	Complete	Complete - Grant Claim Reviewed, Tested and Approved
13	Waterspace Connected	Complete	Complete - Grant Claim Reviewed, Tested and Approved
14	Chew Valley Lake Recreational Trail South	Complete	Complete - Grant Claim Reviewed, Tested and Approved
15	CRSTS Walking and Cycling - Bath Quays Links	Complete	Complete - Grant Claim Reviewed, Tested and Approved
16	CRSTS Walking and Cycling - Scholars Way	Complete	Complete - Grant Claim Reviewed, Tested and Approved
17	Bath Central Riverside	Complete	Complete - Grant Claim Reviewed, Tested and Approved
18	North Keynsham SDL	Complete	Complete - Grant Claim Reviewed, Tested and Approved
19	Bath River Line	Complete	Complete - Grant Claim Reviewed, Tested and Approved
20	Pothole Grant & LATS	Complete	Complete - Grant Claim Reviewed, Tested and Approved
21	CRSTS maintenance challenge fund	Complete	Complete - Grant Claim Reviewed, Tested and Approved

22	CRSTS WECA Capacity Funding Grant	Complete	Complete - Grant Claim Reviewed, Tested and Approved
23	CRSTS Grants for LN's.	Complete	Complete - Grant Claim Reviewed, Tested and Approved
24	CRSTS WECA Mobilisation Funding	Complete	Complete - Grant Claim Reviewed, Tested and Approved
25	CRSTS Grant MSN & Westfield, Walking, Wheeling & Cycling Links	Complete	Complete - Grant Claim Reviewed, Tested and Approved
26	Somer Valley Enterprise Zone (WECA Investment Fund)	Complete	Complete - Grant Claim Reviewed, Tested and Approved
27	Active Travel Fund Tranche 4: Residential Cycle Hangars	Complete	Complete - Grant Claim Reviewed, Tested and Approved
28	Next Door Nature in the Somer Valley	Complete	Complete - Grant Claim Reviewed, Tested and Approved
29	Bathscape Landscape City Framework	Complete	Complete - Grant Claim Reviewed, Tested and Approved
30	South West Net Zero Hub - Local Net Zero Capacity Development Fund - Local Capacity Grant	Complete	Complete - Grant Claim Reviewed, Tested and Approved
31	CRSTS Grant Somer Valley Links	Complete	Complete - Grant Claim Reviewed, Tested and Approved
32	CRSTS Grant Bath Walking, Wheeling & Cycling Links	Complete	Complete - Grant Claim Reviewed, Tested and Approved
33	CRSTS Grant Bath City centre Phase 1	Complete	Complete - Grant Claim Reviewed, Tested and Approved
34	CRSTS Grant Resource Funding	Complete	Complete - Grant Claim Reviewed, Tested and Approved
35	Green Infrastructure Implementation	Complete	Complete - Grant Claim Reviewed, Tested and Approved
36	Future Bright Q1 2025/26 claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
37	South West Net Zero Hub - Local Net Zero Capacity Development Fund - Local Capacity Grant - 25/26 and FINAL Claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
38	Capability and Ambition Funding	Complete	Complete - Grant Claim Reviewed, Tested and Approved
39	Effective Transitions Fund	Complete	Complete - Grant Claim Reviewed, Tested and Approved
40	RONI WEX pilot	Complete	Complete - Grant Claim Reviewed, Tested and Approved
41	Mayoral Priority Skills Fund	Complete	Complete - Grant Claim Reviewed, Tested and Approved
42	Chew Valley Lake Recreational Trail (Final claim)	Complete	Complete - Grant Claim Reviewed, Tested and Approved

43	Patch Management	Reporting	Work completed, reporting to client
44	Privileged Account Access - IT Administration excl. fin systems	In progress	Audit Substantially in Progress
45	Public Website Security	In progress	Audit Substantially in Progress
46	Adult Safeguarding Improvement Plan Implementation	Final	Audit Opinion Level 3 – Reasonable Assurance
47	ASC Improvement Governance	Reporting	Work completed, reporting to client
48	Children's Services - Budget Oversight and Payment Processes (renamed)	In Progress	Audit Substantially in Progress
49	SEND Payment Process Consultancy	Complete	Advice and guidance provided to the client as needed
50	City Regions Sustainable Transport Settlements (CRSTS) - Delivery of Projects	In Progress	Audit Substantially in Progress
51	Property - Commercial Estate (income collection and debt management)	Complete	Debt Management covered in Voids Management audit. New Asset system is not fully functional yet - Advice and guidance provided to the client as needed
52	Debt Management	Deferred	Deferred into 26/27 as requested by Client
53	Property - Commercial Estate (Voids Management)	Final	Audit Opinion Level 3 – Reasonable Assurance
54	Contract Management - Highways Maintenance	Reporting	Work completed, reporting to client
55	Payroll - Contingency Planning - Failure of Pay-run processing	Final	Briefing Report produced
56	Pixash Waste and Highways Facility	Deferred	Deferred into 26/27 as requested by Client
57	Adult Direct Payments	Complete	Advice and consultancy work provided for the Children's Direct Payments review. A full review / rewrite of the Direct Payments Policy being carried out in 2026 - review once new policy is embedded, and Children's have progressed with their actions.
58	'Follow-Up' on 2023/24 External Audit Annual Report weakness/ recommendations	Replaced	Replaced with a higher-priority audit of Children's Direct Payments
59	Adaptions - Use of Disabled Facilities Grants	Final	Briefing Report produced
60	Virtual School (Statutory Responsibilities)	Final	Audit Opinion Level 4 – Substantial Assurance
61	Early Years Capacity (Statutory Responsibilities)	Final	Audit Opinion Level 4 – Substantial Assurance

62	ITrent Data Deletions / Sanitisation	Reporting	Work completed, reporting to client
63	Aequus Group - Financial Governance	Final	Audit Opinion Level 4 – Substantial Assurance
64	Investigation - Cleeve Court Resident's Personal Monies	Final	Investigation Report produced
65	Fleet Management - Workshop Activity / Trading	Final	Audit Opinion Level 2 – Limited Assurance
66	Children's Direct Payments	Reporting	Work completed, reporting to client
67	Governance - Annual Governance Statement	Complete	24/25 statement reported to Audit Committee and included within Accounts. 25/26 being drafted and will be presented for approval in 26/27
68	Governance - Audit Committee, Boards, Advice and Guidance	Complete	Undertaken throughout year
69	Fraud – National Fraud Initiative	Complete	Completed Throughout Year

3.7. DEFERRED AUDITS AND AUDITS NO LONGER REQUIRED

3.7.1. Due to the additional time spent on investigations and unplanned work, a small amount of audit activity has been deferred into 2026/27. In addition, one of the planned audits is no longer required. They are as follows:

- **Debt Management** - The audit has been carried forward from the 2025/26 plan to ensure it is timed appropriately following the planned update of the Debt Management Policy. Allowing additional time enables the audit to provide more meaningful assurance over compliance once this is in place.
- **Pixash Waste and Highways Facility** - The audit has been carried forward into the 2026/27 plan to allow sufficient time for the Keynsham Recycling Hub to become fully operational and for outcomes, such as value for money and planned use of any surplus capacity, to be embedded.
- **'Follow-Up' on 2023/24 (2024/25 published) External Audit Annual Report weakness / recommendations** – The audit was removed and replaced with a higher-priority audit of Children’s Direct Payments as requested by the Director of Assurance, Risk and Pensions, and the Assistant Director Children's Transformation.

3.8. IMPLEMENTATION OF RECOMMENDATIONS

3.8.1. The follow-up of recommendations prioritised on ensuring that critical and high-level recommendations have been implemented. This is because this category of recommendation will have either identified significant risks or identified improvements that could best help the organisation to achieve its objectives.

3.8.2. Audit staff communicate with officers throughout the audit process to ensure that proposed recommendations are understood, are relevant, and are achievable within the organisation and its resources. Through following this approach, we

can report that the vast majority of the recommendations agreed in 2025/26 were found to have been implemented where they were due to be.

3.8.3. Whilst all recommendations have been followed up with the officer(s) responsible, there are recommendations from Internal Audit reports that have not been fully implemented within the intended timescales. The High-level recommendations are detailed below:

3.8.4. **Corporate Parent - Child Protection Independent Reviewing Officers**

	Complete	In Progress	Outstanding
High		2	
Total	0	2	0

Two high-risk recommendations were assessed as partially implemented, relating to (1) Availability/ timeliness of Social Worker reports and (2) Impact of the Independent Reviewing Officer (IRO) in achieving improved outcomes for Children in Care.

Progress has been made to improve performance information, including revised data reporting and stronger tracking of actions through the Service Improvement Board. The outstanding actions include finalising and implementing practice guidance, strengthening risk management arrangements, and embedding consistent, senior-level monitoring and challenge which is reliant on data being available. Delays are primarily due to increasing numbers of children being allocated to the service, wider service transformation, and staffing changes and vacancies.

A new implementation date of September / October 2026 has been agreed with the Head of Service.

3.8.5. **Temporary Accommodation**

	Complete	In Progress	Outstanding
High	1	2	
Total	1	2	0

Two high-risk recommendations were assessed as partially implemented, relating to (1) the procurement and contract management of commissioned temporary accommodation and (2) the recording, reporting and monitoring of temporary accommodation costs.

The follow-up identified incomplete actions for the first recommendation, including finalising and agreeing the new provision specification and finalising contracts including KPIs and reporting arrangements. Progress on the second recommendation has been impacted by staff changes and increased demand, with the remaining action to seek Finance advice on improved monitoring arrangements following the move away from Agresso and to develop revised monitoring processes to strengthen oversight.

3.8.6. IT - IT Services Recovery Management

	Complete	In Progress	Outstanding
High		3	
Total	0	3	0

The three high-risk recommendations relate to backup governance and recovery assurance.

Implementation of recommendations is almost complete; however, the process has taken longer than anticipated due to the complexity of backup and recovery arrangements. Additionally, the planned departure of the responsible officer (Infrastructure Team Leader) has resulted in a transfer of recommendation ownership - once a new owner is confirmed the final follow-up will be performed.

3.9. FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

3.9.1. Statement of the Head of Audit & Assurance

As part of our statutory requirements, the Head of Audit & Assurance in fulfilling the role of the Council's Chief Internal Auditor/ Chief Audit Executive, is required to give an opinion on the internal control framework.

In forming this view, I have considered the work of the Audit & Assurance function as well as other assurances I can rely on and consideration of the wider governance framework and performance of the council.

As highlighted during previous reports to the Audit Committee within 2025/26, we are reporting the state of the internal control framework as satisfactory based on our audit opinions.

The Council's internal control framework and systems to manage risk had not altered significantly from the previous year and it is therefore my opinion that, based on the work completed, the council's internal control framework and systems to manage risk continue to be reasonable. This conclusion is supported by:

- Reasonable assurance can be provided over the council's systems of internal control, helping to ensure corporate priorities can be achieved.
- There were not any significant reported breaches of the council's policies, including Financial Regulations and Contract Standing Orders.
- Managers throughout the council were aware of the importance of maintaining adequate and effective governance arrangements.
- Appropriate arrangements were in operation to prevent and detect fraud and audit reviews and investigations did not identify any systemic failures.
- Senior Management demonstrate a pro-active approach to the fundamental themes of good governance and risk management.

- There were no fundamental system failures or control breakdowns to business - critical functions.

In 2025/26 there were relatively minor adjustments to the internal audit plan. The vast majority of work undertaken continued to take place in the areas planned and agreed, and it is my opinion that, based on the work completed, the council's internal control framework and systems to manage risk are reasonable.

The ongoing financial challenge to all Local Authorities and further macroeconomic factors also place pressure locally on services to respond and manage risk in a proportionate way. A robust Internal Audit service is a vital component of the Council's governance systems and provides the third and final line of defence in relation to the internal control framework.

The Audit Committee has been supportive of our work throughout the year and I would like to thank elected members and the independent members for their ongoing input and guidance.

4. STATUTORY CONSIDERATIONS

- 4.1. There are no specific statutory considerations related to this report. Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIFPA Codes of Practice and the IIA professional standards for delivery of an adequate Internal Audit Service.

5. RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1. There are no direct resource implications relevant to this report.

6. RISK MANAGEMENT

- 6.1. A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance. Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees and undetected fraud. Internal Audit assists the Council in identifying risks, improvement areas and recommending good practice.
- 6.2. The Audit Committee has specific responsibility for ensuring the Council's Risk Management and Financial Governance framework is robust and effective.

7. EQUALITIES

- 7.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8. CLIMATE CHANGE

8.1. There are no direct climate change implications related to this report.

9. OTHER OPTIONS CONSIDERED

9.1. No other options to consider related to this report.

10. CONSULTATION

10.1. The Council's Director of Assurance, Risk and Pensions has had the opportunity to input to this report and have cleared it for publication.

Contact person	<i>Peter Cann, Head of Audit & Assurance</i>
Background papers	Internal Audit Update Reports to Audit Committee Sep & Nov 2025 2025/26 Internal Audit Plan – April 2025 2026/27 Internal Audit Plan – April 2026
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1 - Description of Audit Assurance Ratings and Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified, and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3 - Reasonable Assurance	The systems of internal control are satisfactory, and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.
Level 2 - Limited Assurance	The systems of internal control are weak, and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure.