

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 30th June 2009

INTERNAL AUDIT PLAN – PROGRESS REVIEW

REPORT OF THE GROUP AUDITOR (South West Audit Partnership) This matter is the responsibility of Councillor Henley, the Leader of the Council.

EXECUTIVE SUMMARY

This report highlights significant findings and recommendations that have occurred since the Committee last considered the findings of Internal Audit reports in May 2009.

1. Purpose of Report

To provide members with an update on the activities of the Internal Audit team for the period May 2009 to June 2009.

2. Work undertaken by Internal Audit May to June 2009

Operational Audits - Operational audits are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated. For Operational Audits SWAP aim to provide management and Members with a level of assurance on the robustness of the internal control environment. The following categories of assurance have been agreed:

<p>▲★★★★ Full Assurance</p>	<p>The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively at all times and risks against the achievement of objectives are well managed.</p>
<p>▲★★★ Reasonable Assurance</p>	<p>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</p>
<p>▲★☆☆ Partial Assurance</p>	<p>Most of the areas reviewed were not found to be adequately controlled. Generally risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.</p>
<p>▲☆☆☆ No Assurance</p>	<p>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.</p>

The following operational audit has been finalised since the Committee last met in May 2009 as below:-.

Audit area	Audit Opinion
Treasury Management	▲ ★★ ★ Partial Assurance
Council House Sales	▲ ★★ ★ Full Assurance
Council Tax	▲ ★★ ★ Reasonable Assurance

Treasury Management

The opinion has been graded as partial based upon the evidence examined at the time of the audit. However, I can confirm from information provided and actions undertaken at the time of the audit that management have agreed an action plan to address the remaining issues that were identified during the audit.

It is worth mentioning that despite some organisations losing capital during the ongoing credit crisis that Taunton Deane's prudent approach has meant that all of its investments have been protected.

Furthermore the key documents required by the regulations were all found to be in place and Treasury Management is regularly monitored through reports to the Executive as well as through performance indicators within the Southwest One contract.

However the recent loss of the Principal Accountant has affected the delivery of some aspects of the service and there are instances where audit trail and documentation held needs to be improved.

Significant weaknesses were identified in the following areas:-

- The review of Treasury Management Policies (TMPs) needs to be completed and signed off. This needs to include the split of responsibilities across the Council and Southwest One and the new staffing arrangements. Management Response : SouthWest One will amend the TMPs once the new staffing structure is in place for the Finance shared service centre which will in future be responsible for Treasury functions, to be completed by end September 09.
- The Counterparty listing is not currently version controlled. The reintroduction of approved investments following the temporary suspension of the Counterparty listing following the credit crisis is not being documented. Management Response : We plan to create a separate page on the Counterparty spreadsheet each time a change is made in order to maintain an audit trail.

- All members of the Treasury Management Team have access to the Treasury Management folders and files. Management Response : This will be completed once the shared service centre has been set up.
- One of the Treasury Management Performance indicators was calculated incorrectly for 2 quarters. Management Response : It has been agreed that Southwest One will audit the calculation of all performance indicators in the future. Clarification has been sought over the calculation of this indicator and actual performance recalculated correctly.
- Following the departure of the Principal Accountant additional responsibilities have been allocated to the team and cover arrangements for Treasury Management have been reduced. Management Response : This will be covered as part of Southwest One's set up of the Shared Service centre planned for 2009/10.

Council House Sales

The review did not reveal any significant weaknesses in the controls operating surrounding the sale of Council Houses during 2008/09.

Council Tax

Although there were some weaknesses identified I am confident that management are addressing the key areas of risk and that further progress will be made to bring about improvements in the overall control framework.

The main issues raised and management responses are as follows:-

- There is no contract currently in place with the bailiffs used for collection purposes. Management Response : It would be likely that to be able to put a formal bailiff contract in place for bailiffs it would be necessary to undergo a formal tendering exercise. We will investigate carrying out such an exercise. However given the amount of work this would involve this would not be undertaken in 2008/09 and would instead be put forward for inclusion in our 2009/10 operational plan.
- There are no set procedures for authenticating Council Tax callers. Management Response : Agreed this needs to be dealt with as a corporate rather than on a section by section basis. We would welcome such corporate guidance and would be very happy to participate in its creation.

Managed Audits

Main Accounting

The audit review has identified five areas of weakness. The impact of the SAP implementation at the time that testing was undertaken resulted in additional pressures being put on the Finance Team. It was pleasing to note that throughout the course of the audit review, Finance staff demonstrated a willingness to resolve all areas of weakness.

The main areas where management should focus their attention are:

- Ensuring carry forward balances are entered correctly in the FMS.
- The Creditors Imprest account is promptly investigated and reconciled regularly.
- The process for authorising journals should be reviewed during the implementation of SAP.
- Credit card purchases should be subject to appropriate management checks to allow a division of duties over expenditure and reconciliation of transactions.
- IT issues re system administration and leaver protocols are resolved through the implementation of SAP.

An Audit Close out meeting was held to discuss the control weaknesses. I am pleased to report that all significant areas of weakness have now been resolved and the remaining issues were picked up as part of SAP implementation or were of an administrative nature.

Capital Accounting

The review identified that the Council has to revisit its money laundering policy and improve the level of detail on the Council's Asset Register. Otherwise, the majority of the key controls are operating as expected with only some minor improvements required in strengthen the internal control environment.

3. Workload Update

Although there are a substantial number of reports at draft stage management are in the process of responding to these and final reports will be issued shortly and the findings shared with this committee.

In addition to the audit work detailed below there are a number of other areas of work that SWAP have undertaken including the on-going provision of audit advice, ad-hoc special investigations and involvement in the SAP project providing advice and guidance on control issues.

The following reviews are in progress or are going through the reporting process :-

Audit area	Type of review	Progress
Procurement	Operational Review	Draft Report
Transport Policy	Operational Review	Draft Report
Partnership Arrangements	Operational Review	Testing
IT Audit - Compliance against ISO27002 level one	Computer Audit	Draft Report
IT Audit – Social Networking	Computer Audit	Final Report
IT Audit – Disaster Recovery Planning	Computer Audit	Draft Report
Payroll	Managed Audit	Draft Report
Absence Management Qtr 1	Governance Audit	Testing
Information Management Qtr 1	Governance Audit	Draft Report
Fees and Charges Qtr 1	Governance Audit	Testing
Pest Control Qtr 1	Operational Review	Testing
Food Safety Qtr 1	Operational Review	Testing

4. Recommendation

The Committee should note the content of this report.

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