

Taunton Deane Borough Council

Corporate Governance Committee – 18 September 2017

SWAP Internal Audit – Internal Audit Plan 2017/18 Progress

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.
- 1.2 The 2017-18 Annual Audit Plan is to provide independent and objective assurance on TDBC's Internal Control Environment. This work will support the Annual Governance Statement.

2 Recommendations

- 2.1 Members are asked to note progress made in delivery of the 2017/18 internal audit plan and significant findings since the previous update in June 2017.

3 Risk Assessment

- 3.1 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
Without the delivery of the approved audit plan there is the risk of insufficient audit work being completed to provide a reasonable assurance to stakeholders that there is an effective control framework in place, adequately mitigating risks to the authority's risk appetite.	3	3	9

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%

4 Background

4.1 This report summarises the work of the Council's Internal Audit Service and provides:

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in June 2017.
- 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.

4.2 The Internal Audit Progress Report for 2017/18 is contained within the attached SWAP Report.

5 Links to Corporate Aims

5.1 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.

6 Finance

6.1 There are no specific finance issues relating to this report.

7 Legal Implications

7.1 There are no specific legal issues relating to this report.

8 Environmental Impact Implications

8.1 There are no direct implications from this report.

9 Safeguarding and/or Community Safety Implications

9.1 There are no direct implications from this report.

10 Equality and Diversity Implications

10.1 There are no direct implications from this report.

11 Social Value Implications

11.1 There are no direct implications from this report.

12 Partnership Implications

12.1 There are no direct implications from this report.

13 Health and Wellbeing Implications

13.1 There are no direct implications from this report.

14 Asset Management Implications

14.1 There are no direct implications from this report.

15 Consultation Implications

15.1 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)

Appendix A	SWAP Internal Audit Progress Report 2017/18
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Taunton Deane Borough Council

Report of Internal Audit Activity

Plan Progress 2017/18

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Internal Audit Plan Progress 2017/2018

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for the Taunton Deane Borough Council is provided by 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), 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 meeting on March 2017.

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
- Other Special or Unplanned 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 and External Auditors. This year's Audit Plan was reported to this Committee and approved by this Committee at its meeting in March 2017.

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 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action



Internal Audit Work

The schedule provided at [Appendix B](#) contains a list of all audits as agreed in the Annual Audit Plan 2016/17. 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 in [Appendix A](#) of this document.

Overall good progress is being made on the Audit Plan 2017-18. Current progress as at the end of August can be seen from [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 June 2017 update there are three Partial Assurance reviews I need to bring to your attention. These are, Housing Rents, Non-Contracted Suppliers and Data Protection/General Data Protection Regulations. Further details on these reviews can be found in [Appendix C](#).

In addition to the three ‘Partial Assurance’ audits, there are two follow up audits that I need to bring to your attention regarding the progress made since our original reviews. These are Building Control Partnership and the Crematorium Review. Further details can be found in within [Appendix C](#).

Internal Audit Plan Progress 2017/2018

We keep our audit plans under regular review to ensure that we are auditing 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 2017 committee report there have been the following plan changes:

- **Disaster Recovery Arrangements** – This review was originally scheduled for quarter 1. We have been requested to push this back to quarter 3 as officers want to test the solution that has been put in place before a full audit is undertaken.
- **Housing Rents Follow Up** – This review has been added to the audit plan, utilising the follow up contingency days, due to the partial assurance opinion award to the original review in quarter 4 of the 2016-17 plan.
- **Data Protection Act(DPA)/General Data Protection Regulations (GDPR)** – this review has been added to the plan utilising the follow up contingency days. It has been added to the plan due to the DPA partial assurance audit opinion and the new regulations (GDPA) that take effect in May 2018.
- **Council Tax Base Calculation** – We will also be spending some of our plan days on reviewing the basis of the council tax base calculation.
- **Development Control** was pushed back to quarter 4 due to the Deane House refurbishment work. To compensate for this the Housing Compliance review on Gas Safety has been brought forward to quarter 2.

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



Audit Framework Definitions

- Substantial
- Reasonable
- Partial
- No Assurance

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 – 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.

Recommendation 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 & the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
FINAL											
Operational Audit	Impact of Universal Credit/Welfare Reform	Q1	Final	Reasonable	4	0	0	4	0	0	
Operational Audit	Use of Non-Contracted Suppliers - DLO	Q1	Final	Partial	8	0	0	6	2	0	Details in Appendix C
Governance, Fraud & Corruption	Compliance with IR35	Q1	Final	Reasonable	4	0	0	4	0	0	
Operational Audit	Trade materials	Q1	Final	Non-Opinion	0	0	0	0	0	0	
Follow Up	Crematorium follow up	Q2	Final	Follow up	9	0	0	5	4	0	Details in Appendix C
Follow Up	Building Control follow up	Q2	Final	Follow up	1	0	0	1	0	0	Details in Appendix C
DRAFT											
Operational Audit	Housing Compliance - Gas	Q2	Review								
Operational Audit	Parking maintenance	Q1	Review								
IN PROGRESS											
Operational Audit	Grants - DFG & Other	Q2	In Progress								
Governance, Fraud & Corruption	Organised Crime - Compliance Checklist	Q2	In Progress								

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Governance, Fraud & Corruption	Transformation	Q1, Q2, Q3, Q4	In Progress								
ICT	New TDBC Website post implementation	Q1	In Progress								
Governance, Fraud & Corruption	Use of Consultants	Q2	In Progress								
Follow Up	User Access Management follow up	Q2	In Progress								
Governance, Fraud & Corruption	New premises - project management	Q2	In Progress								
Governance, Fraud & Corruption	Post Implementation Review - Finance System, HR & Payroll	Q2	In Progress								
NOT STARTED											
ICT	Disaster Recovery	Q3									
Key Control	Main Accounting	Q3									
Key Control	Creditors	Q3									
Key Control	Debtors	Q3									
Key Control	Discretionary Payments - Housing	Q3									
Governance, Fraud & Corruption	Business Rate Avoidance	Q3									

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
ICT	Cyber Security	Q3, Q4									
Operational Audit	Development Control	Q4									
Key Control	Payroll	Q4									
Governance, Fraud & Corruption	NEW: DPA/GDPR Follow Up	Q4									
Key Control	NEW: Housing Rents Follow Up	Q4									
Key Control	System Parameter testing Civica	Q4									
Governance, Fraud & Corruption	Culture & Ethics Survey	Q4									
Governance, Fraud & Corruption	Procurement Analysis	Q4									
Operational Audit	Business Development - Project & Programme Management	Q4									

Outstanding 2016-17 Audits

Operational Audit	Capital Programme Approval & Monitoring / linked with Contract monitoring	Q2	Draft	Reasonable							
Key Control	Housing Rents	Q4	Final	Partial	6	0	0	5	1	0	Details in Appendix C

Governance, Fraud and Corruption	Information/Data Security/Data Protection	Q4	Final	Partial	6	0	0	6	0	0	Details in Appendix C
Key Control	Treasury Management	Q3	Final	Substantial	0	0	0	0	0	0	

Summary of key audit findings on work undertaken since the June 2017 Update

Audit Assignments completed since the June 2017 update:



Summary of Audit Findings and High Priority Service Findings

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

The following information provides a brief summary of each audit review finalised since the last Committee update in June 2017. 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 2017 update there are three Partial Assurance audit opinions that I need to bring to your attention and two follow up audits.

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.

Non-Contracted Suppliers – Partial Assurance

The focus of this audit was to assess the adequacy of controls and procedures in place for the use of non-contracted suppliers across the Direct Labour Organisation (DLO). The DLO use non-contracted suppliers to complete works where they do not have the expertise within their current staff or they require additional support to enable them to meet their commitments. Over the last three financial years a total of £1.3m has been spent on non-contracted suppliers.

Audit Assignments completed since the June 2017 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Operational Audits Continued

Management at TDBC asked us to examine this area due to concerns over the nature of the engagements. Our main area of concern related to the lack of evidence to show how the non-contracted suppliers were appointed, that the work was advertised and how performance was being monitored.

The Council’s Contract Procedure Rules (CPRs) outline the processes that needs to be followed when procuring goods and services. The processes to be followed vary depending on the value of the contract to be carried out. Within the CPRs, paragraph 17 provides an exemption for the DLO in certain circumstances. It is felt that this exemption is being utilised to bypass the normal procurement practices too frequently.

An agreed action plan is in place to address these weaknesses and in due course we will follow up on these weaknesses to ensure recommendations have been implemented. A copy of the Audit Report will be circulated to the committee members.

Audit Assignments completed since the June 2017 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Governance Fraud & Corruption Audits

Governance, Fraud and Corruption Audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will in some cases enable SWAP to provide management with added assurance that they are operating best practice as these reviews are often conducted across multiple client sites.

Information/Data Security/Data Protection – Partial Assurance

Data Protection in the UK is currently governed by the Data Protection Act 1998 (DPA) which brought into statute the 1995 EU directive 95/46/EC on data protection. On the 25th May 2018, the DPA will be superseded by the EU General Data Protection Regulation (GDPR). The GDPR significantly strengthens the data protection rights for EU citizens and brings in a new compliance framework for Data Controllers and Data Processors.

This assurance is based upon the processes currently in place to ensure compliance with the Data Protection Act. We were unable to establish the full programme of data protection training/awareness sessions available to staff beyond initial awareness. A lack of privacy notices included on forms requesting personal data was noted along with erroneous deadline dates set for Subject Access Request responses and therefore statutory timescales for responses could be missed.

There is no corporate approach to ensuring data quality, with the responsibility deferred down to service areas. Although we were provided with a comprehensive schedule detailing retention periods, we were also unable to verify that they are being adhered to.

TDBC have not started making preparations for the GDPR. Whilst the GDPR Lead and Senior Management have awareness of the upcoming regulations, there have been no formal meetings held to discuss how the Authority will implement or update existing controls and systems to ensure they are GDPR compliant.

Audit Assignments completed since the June 2017 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Governance Fraud & Corruption Audits

It would be beneficial for another audit to be scheduled before May 2018 to assess the Council's progress towards compliance with the new regulations.

Audit Assignments completed since the June 2017 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Key Control Audits

Key Control Audits are a review of the key financial systems that govern the authority. Traditionally, these are systems identified by External audit as key in their assessment of the Council's financial control environment. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control.

Housing Rents – Partial Assurance

The reason this audit has been given partial assurance is because we were unable to complete our testing comprehensively across all the key controls. Areas that couldn't be tested related to the management of current tenancy areas and incomplete data being provided to audits to allow write-off testing to be completed. As a result the following findings have been made:

- There was some initial uncertainty over the officer who was responsible for providing an oversight of current tenant arrears which has prevented us from placing assurance in this area. Although some data was eventually provided this has not been tested.
- Incomplete data was provided on the write-offs, limiting our testing. It is acknowledged that the officer providing the information is new in role and has not provided data to support audits previously. However, it should be noted that this does further demonstrate a weakness in process notes and there is a risk that processes can be impacted as a result of turnover in key personnel.
- Policies and procedures examined had not been updated and did not include version control or a schedule for review.
- Relevant information to the recovery process for rent arrears had not been recorded in Academy. This included payment arrangements made between former tenants and the organisation.

Audit Assignments completed since the June 2017 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Key Control Audits Continued

In addition, poor record keeping meant that it was not possible to establish whether recovery processes had been exhausted for a sample of accounts that were written off. A similar control weakness was identified in the 2016-17 Debtors audit and a recommendation made in response to this. Therefore, the recommendation will not be repeated here.

Audit Assignments completed since the June 2017 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

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 Audit 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.

Building Control

The Somerset Building Control Partnership, a partnership between four Somerset District Councils, Mendip, Sedgemoor, Taunton Deane and West Somerset, commenced operating on 1 April 2016.

Partial assurance was given to this review and details of the weaknesses reported to this committee in March 2017. Some of the weaknesses identified included:

- Lack of a single IT System and failure of the on-line application system in June 2016;
- HR issues impacting on handover and staff resources from the 1 April 2016;
- No monitoring or reporting of application numbers;
- Weak system for receiving payments.

We have undertaken our follow up work and can report that eleven of the twelve recommendations made have been implemented. The one recommendation outstanding couldn't be actioned as planned due to a coding error caused by the online payment system not forcing applicants to enter the district information on the online form. This issue has been resolved and it is expected that the final recommendation will be implemented by the end of September 2017.

Audit Assignments completed since the June 2017 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Follow Up Audits Continued

Crematorium & Imprest Account – Follow Up Audit

The Imprest Accounts: Unannounced Visits report was issued on 14/11/16. Partial assurance was offered. Within this report five recommendations were raised related to the Crematorium, one scored priority 4 and four priority 3.

The Crematorium and Burial Services report issued on the 10/08/16 was given a partial assurance rating. A total of twelve recommendations were made in this report, seven scored as priority 4 and five as priority 3. One recommendation was to implement the three outstanding recommendations from the Crematorium and Burials non-opinion audit report dated 23/10/15. In this report four recommendations were raised, one scored priority 4 and two priority 3. This audit has therefore followed up on a total of twenty recommendations at the crematorium. Tables 1 and 2 below summarise the progress made with regards to implementing controls to mitigate the risks established for the twenty agreed actions.

Table 1: Progress – 2016/17 Imprest Accounts: Unannounced Visits report

	Complete	In Progress	Not Complete
Priority 4		1	
Priority 3	2	2	
Total	Two	Three	

Table 2: Progress – 2015/16 and 2016/17 Crematorium and Burial Services Audit reports

	Complete	In Progress	Not Complete
Priority 4	4	4	
Priority 3	2	5	
Total	Six	Nine	

Audit Assignments completed since the June 2017 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Follow Up Audits Continued

The twelve agreed actions that are in progress are currently overdue and therefore a revision to the implementation dates has been agreed. There has been some delay to the implementation of recommendations due to the change of manager at the crematorium. A number of the recommendations are not straightforward to implement, such as the implementation of a new system, but there is evidence that steps are being taken to address the weaknesses.

Given the outstanding weaknesses we will include this area for a full audit in 2018-19 audit plan.