

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 28TH JUNE 2006

INTERNAL AUDIT ANNUAL REPORT 2005/2006

REPORT OF THE GROUP AUDITOR (This matter is the responsibility of Councillor Williams, the Leader of the Council)

EXECUTIVE SUMMARY

Under the Account and Audit Regulations 2003, the Council is required to maintain an adequate and effective system of internal audit of its financial management and system of internal control, in accordance with proper internal audit practices. This report summarises internal audit activity over the 2005/06 financial year.

1. PURPOSE

The Accounts and Audit Regulations (England) 2003 came into force on 1 April 2003. Regulation 4 has the requirement for public authorities to publish a Statement on Internal Control (SIC).

The Statement incorporates an annual review of the System of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. Standard 9 of the SIC requires "the Head of Internal Audit to include in the annual Internal Audit Report to the authority an opinion on the overall adequacy and effectiveness of the authority's internal control environment, providing details of any weaknesses that qualify this opinion and bringing to the attention of the authority any issues particularly relevant to the preparation of the SIC" – *Meeting the Requirements of the Accounts and Audit Regulations 2003 (CIPFA Publication)*.

The purpose of this report is to satisfy this requirement.

2. THE ROLE OF INTERNAL AUDIT

The Internal Audit Service for Taunton Deane Borough Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors.

Internal Audit provides an independent and objective opinion on the authority's control environment by evaluating its effectiveness. Primarily the work of the Unit includes:

- 4 -Year Plan of Systems Audit Reviews
- Annual Review of Key Financial System Controls
- Follow Up Reviews

3. INTERNAL AUDIT WORK PROGRAMME FOR 2005/2006

3.1 RISK MANAGEMENT

As part of rolling out Risk Management at service level, Internal Audit staff along with other trained officers across the Council were charged with ensuring that every service of the Council has engaged in the Risk Management process. The role of Internal Audit in these sessions was to act as facilitators in capturing service risks and helping Service Managers compile risk registers. This resultant Risk Registers are contained within the Council's Risk Management Intranet Site.

The following sessions were completed:

- Environmental Services
- Information Services
- Member Services
- Legal Services
- Property Services
- Finance
- Forward Planning and Regeneration
- Benefits
- DLO
- Housing Supported Services
- Personnel and Payroll
- Housing Operations
- Housing Assets
- Policy & Performance
- Building Control
- Customer Services
- Health & Safety
- Car Parks
- Leisure Development
- Cemeteries & Crematorium
- Revenues
- Communications
- Economic Development & Regeneration
- Development Control
- Horticulture & Highways
- Housing Strategic Services
- Waste Services

3.2 SYSTEMS AUDITS

Systems Audits are a detailed evaluation of a services' 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. In total 19 full systems audits were planned and 3 were completed from the previous year as follows:

3 were completed from the previous year:

- Housing Elderly Services (Piper)
- Officers Allowances and Overtime
- DLO/DSO Accounts

6 have been issued as draft reports:

- Personnel Recruitment & Selection
- Street Cleansing
- Housing Repairs
- VAT
- Car Parks
- Building Control

1 is in progress and will be completed this year:

- Dog Wardens

12 audits were not completed from the plan with the agreement of management:

- IS Development
- BS7799
- Software Licensing
- Computer Networks
- Tourism (Covered as part of 2006/07 Audit Plan)
- Valuation and Estates (Covered as part of 2006/07 Audit Plan)
- Community Safety
- Leisure Services (Review of Trust Arrangements)
- Refuse Collection Covered as part of 2006/07 Audit Plan)
- Deane Building Design Group (Covered as part of 2006/07 Audit Plan)
- Home Improvement Agency
- Estates Management

The following reviews were undertaken at the request of management:

- Financial Regulation compliance
- Contract Site Visits
- Wessex Reinvestment Trust
- NFI 2004
- Project Assurance ISIS, Revenues / Benefits and Housing Systems

Other work that the Internal Audit Section has undertaken to support management include the following:

- Participation in the SIC Working Party
- Use of Resources Review
- Data Protection and FOI Advice
- Review of Final Accounts (Contract Audit)
- General advice to services (Financial and internal control issues)

3.3 MANAGED / PART SYSTEM AUDITS

Managed audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. In total 13 managed audits / part system reviews were undertaken as follows:

- Bank Reconciliation
- Capital Accounting
- Cash Receipting
- Council Tax
- Creditors
- Debtors
- Housing Benefits
- Housing Rents
- Investments
- Loans
- Main Accounting

- Non-Domestic Rates
- Payroll

3.4 FOLLOW UP REVIEWS

Follow Up Reviews – In total 23 follow up reviews were due:

19 reviews were completed to final:

- Debtors
- Creditors
- Housing Rents
- Main Accounting System
- Treasury Management
- Capital Charges
- DLO Accounts
- Piper Lifeline
- Bank Reconciliation Systems
- Treasury Management
- Concessionary Travel
- Members Allowances
- Car Loans
- Licensing
- Non Domestic Rates
- Cash Receipting
- Council Tax
- Housing Benefits (Including Post Room special review)
- Payroll

1 review is at draft stage:

- Officers Allowances

3 reviews are outstanding:

- Review of Control Team
- Mobile phones
- CCTV

4. INTERNAL AUDIT MANAGER'S OPINION

The following is a summary of my opinion resulting from those reviews referred to above:

The reviews identified in the majority of cases only minor areas for improvement and on the whole found that key controls for the major financial systems are operating well. Where any significant control weaknesses were identified recommendations for improvement have either been adopted or have been acknowledged by Service Managers. In general I am assured by the management response to address the identified control weaknesses. However, the following issues, while in the process of being addressed, are in my opinion significant and remain outstanding.

Quality of systems and procedural documentation:

One theme that emerged in many of the audits covered was either the lack of procedural manuals or the quality and their coverage of key areas of the Council's activities. Procedures and documentation must be robust in order that management can assess compliance with the processes undertaken by officers, to ensure that services are being delivered in accordance with defined service objectives. This is of particular significance as from 2006-07, the key systems definition previously mainly restricted to financial systems is being widened by the

Audit Commission to incorporate key service provision thus strengthening the requirement for adequate internal control documentation.

Lone worker arrangements:

It was noted on occasions that there are issues in respect of lone officer working where service managers have not made adequate arrangements to ensure the Health and Safety of their staff. There is a risk that if an employee is injured during the course of their normal duties and the service manager has not assessed the health and safety risks, a claim could be made against the Council.

Recruitment and Selection of Staff:

The Recruitment and Selection audit review highlighted a number of control weaknesses, the significant one being that the process surrounding the completion of CRB checks on staff working for the Council requires review. Whilst all successful candidates taken on in positions which deal with children and vulnerable adults, for example Kilkenny Court, Benefits and Finance, have a CRB (Criminal Records Bureau) check carried out it is not always completed in time for when they commence their probationary period. There was also some confusion as to whether checks were undertaken on all Council staff who undertake visits to customer's homes (ie DLO employees). The risk that remains for the Council is that an applicant who is not suitable to be working with children or vulnerable persons is employed in such a role.

Main Accounting System:

The Internal Audit review of the Council's Main Accounting System picked up on the ongoing issues that face the Council in staying with an outdated Financial Management System. The issues raised included the very basic profiling of budgets, the lack of adequate management information available from the current system and the need for system improvements.

The Council's Main Accounting System represents an area where previous audit recommendations have not been implemented and has been the subject of criticism from the Council's External Auditors.

5. SUMMARY

Overall and with the exception of the issues raised above, I can offer reasonable assurance that key controls are in place and working well. Where weaknesses have been identified I am satisfied by the management response, in terms of an agreed action plan.

6. RECOMMENDATION

The Committee should note the content of this report.

Chris Gunn
Group Auditor
South West Audit Partnership