

# Taunton Deane Borough Council

## Corporate Governance Committee – 20 March 2017

### SWAP Internal Audit – Internal Audit Plan 2016/17 Progress Report

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 2016-17 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 2016/17 internal audit plan and significant findings since the previous update in December 2016.

#### 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

<b>Likelihood</b>	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
<b>Impact</b>							

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
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 December 2016.
- 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 For Internal Audit Progress Report for 2016/17 please refer to the attached SWAP Progress 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 2016/17
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**Contact Officers**

Name	Alastair Woodland
Direct Dial	01823 356160
Email	Alastair.woodland@southwestaudit.co.uk

Name	Ian Baker
Direct Dial	07917628774
Email	Ian.Baker@southwestaudit.co.uk

# Taunton Deane Borough Council

Report of Internal Audit Activity

Plan Progress 2016/17 February 2017

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The contacts at SWAP in connection with this report are:

**Gerry Cox**

Chief Executive

Tel: 01935 385906

[gerry.cox@southwestaudit.co.uk](mailto:gerry.cox@southwestaudit.co.uk)

**Ian Baker**

Director of Quality

Tel: 07917628774

[ian.baker@southwestaudit.co.uk](mailto:ian.baker@southwestaudit.co.uk)

**Alastair Woodland**

Assistant Director

Tel: 07872500675

[alastair.woodland@southwestaudit.co.uk](mailto:alastair.woodland@southwestaudit.co.uk)

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## Internal Audit Plan Progress 2016/2017

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 in March 2016.

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 Joint Management Team. The 2016-17 Audit Plan was reported to and approved by this Committee at its meeting in March 2016.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

## Internal Audit Plan Progress 2016/2017

### 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.

**Appendix B** shows progress against the 2016-17 audit plan. Good progress is being made, with a number of reviews now at final report stage or draft and all quarter 4 audits underway.

From a risk point of view, the most immediate area to draw your attention to is our SAP replacement work (the New Finance System Audit and SWO Exit & Support Audit). As reported in December we felt there was a risk around capacity, with pressure on resources to deliver this project as well as business as usual (BAU). Steps have been taken to increase the resources on the new finance system project, but it is worth noting that the deadline is now extremely tight with a number of key project actions still outstanding and the project now at a ‘Amber’ RAG status.

Also, 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. Whilst there are no ‘partial’ or ‘no assurance’ reviews, I would draw your attention to the Building Control Partnership audit listed as ‘Non-Opinion’ and the SWO Succession Planning audit which can be found within **Appendix C**.



## Internal Audit Plan Progress 2016/2017

We keep our audit plans under regular review so as to ensure that we are auditing the right things at the right time.



### Approved Changes to the Audit Plan

The audit plan for 2016/17 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 last update in December there have been a few changes to the Audit Plan. These are:

- At the request of Assistant Director – Property & Development (Interim) the Housing Responsive Maintenance audit has been deferred due to changes in the service provision since the move to the new DLO Depot. This was a timely request as the Assistant Director – Operational Delivery required some work to be undertaken on Open Spaces External Works – Charging & Income Collection.
- The time allocated for the Transformation Programme Audit has been deferred to the 2017-18 plan, i.e. additional 10 days for 2017-18. This is to accommodate the current position of the transformation programme and where and when our time will be most effectively used.
- Due to the risks around the implementation of the new finance system, the Mobile Working audit has been replaced with additional time allocated to the New Finance System audit.
- The residual time that was ‘unallocated’ from the previously reported change relating to the ‘Building Control Review’ has been added to the work already in progress on the ‘New Finance System.’

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

<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 – 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 and the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
<b>FINAL</b>											
Follow up	IT Hardware Asset Management	Q1	Final	Follow up	0	0	0	0	0	0	
Follow up	Software Asset Management	Q1	Final	Follow up	4	0	0	3	1	0	
Operational Audit	Crematorium	Q1	Final	Partial	12	0	0	5	7	0	
Follow Up	Commercial Rents	Q1	Final	Follow up	3	0	0	2	1	0	
Governance, Fraud and Corruption	Absence Management	Q1	Final	Reasonable	5	0	0	5	0	0	
Follow up	Housing Voids	Q2	Final	Follow up	5	0	0	5	0	0	
Governance, Fraud and Corruption	Imprest/Cash Spot Checks	Q1	Final	Partial	5	0	0	4	1	0	
Governance, Fraud and Corruption	Members Expenses	Q1	Final	Reasonable	6	0	0	6	0	0	
Operational Audit	Licensing	Q2	Final	Reasonable	6	0	0	6	0	0	
ICT	User Management ( <i>Starters and Leavers - HR, Facilities, ICT</i> )	Q2	Final	Partial	7	0	0	6	1	0	TDBC Recommendations only
Follow up	Asset Management	Q2	Final	Follow Up	8	0	1	3	4	0	
Governance, Fraud and Corruption	SWO Succession planning (TUPE Transfer and Project Governance)	Q2	Final	Non-Opinion		N/A					See Appendix C for further information
Key Control	Council Tax & NNDR	Q3	Final	Substantial	3	0	0	3	0	0	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Governance, Fraud and Corruption	<b>NEW:</b> Building Control Partnership	Q3	Final	Non-Opinion	12	N/A					See Appendix C for further information
Key Control	Housing Benefits	Q3	Final	Substantial	4	0	0	4	0	0	
Key Control	Payroll	Q4	Final	Reasonable	3	0	0	2	1	0	
<b>DRAFT</b>											
Operational Audit	Capital Programme Approval & Monitoring / linked with Contract monitoring	Q2	Draft								
Key Control	Creditors	Q3	Review								
Key Control	Debtors	Q3	Review								
Key Control	Main Accounting	Q3	Draft								
<b>IN PROGRESS</b>											
ICT	New Financial System	Q2, Q3, Q4	In Progress								Time as 'critical friend' on project.
ICT	SWOne Exit Support/ Advice (New HR & Payroll System)	Q2, Q3, Q4	In Progress								Time as 'critical friend' on project.
Key Control	Treasury Management	Q3	In Progress								
Key Control	Housing Rents	Q4	In Progress								
Governance, Fraud and Corruption	Information/Data Security/Data Protection	Q4	In Progress								

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Operational Audit	<b>NEW:</b> Open Spaces External Works – Charging & Income Collection	Q4	In Progress								
Operational Audit	Supported Housing (both Extra Care and Sheltered)	Q4	In Progress								
<b>DROPPED</b>											
Governance, Fraud and Corruption	DLO Transformation / Relocation Programme	Q4									Replaced by Building Control Partnership work
ICT	Mobile Working ( <i>Mobile Devices - end to end</i> )	Q3									Additional time to Finance System.
Contingency	Unallocated (Residual from DLO work)	Q4									Additional time to Finance System.
Operational Audit	Housing - Responsive Maintenance	Q4									Replaced by Open Spaces External Works.
Governance, Fraud and Corruption	Transformational Programme	Q4									Time added to the 2017-18 plan.

**Summary of key audit findings on work undertaken since the December 2016 Update**

**Audit Assignments completed since the December 2016 update:**



**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 December 2016. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review.

**Governance, Fraud and 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.

**Building Control – Non Opinion**

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.

Governance of the partnership is via a Joint Committee made up of Members from each Partner site. A Strategic Board has an operational role, and management functions and the operation of the building control service are delegated to the host authority, Sedgemoor (SDC).

**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 and Corruption Audits Continued

Concerns were raised on the performance of the partnership and SWAP were asked to undertake a 'health check' audit on the Partnership. Fee income for TDBC and WSC were significantly under budget and other issues had been noted, such as unanswered telephones; unbanked cheques; completion certificates not issued and invoices not raised.

The objective of the audit was to investigate the possible reasons for the income deficits, and to perform a review of the partnership processes relating to income.

It is acknowledged that the introduction of the partnership has been a major change for the four former building control sections, with a changed structure, new systems and new working processes, and there has been considerable efforts from staff to incorporate the changes. It is clear however, that the partnership has had a shaky start, and the change process is still ongoing.

We have identified several factors that relate to the income deficits at two of the partners and it is likely that each has contributed to the reported shortfall in income. These include:

- No administrative support for extended periods;
- A reduction in application numbers at some partners;
- Not all invoices were raised for all applications;
- Unrealistic budgets set for some partners on income expectations;

Other issues identified during the audit and include:

- 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.



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 and Corruption Audits Continued

Given the nature of the findings we would propose that a further audit is carried out early in the next financial year to allow time for the recommendations to be implemented and become embedded.

#### **SWO Succession planning (Project Governance) – Non Opinion**

This focussed on the project framework and governance arrangements in place to deliver the South West One Exit with audit work undertaken in October and November. Whilst this was a non-opinion piece of work, the projects are inherently high risk projects that will have an impact on the Authority should they fail to deliver the required outcomes.

Project Governance arrangements have largely been put in place to ensure effective monitoring/delivery of the projects (Staff transfer, New Finance System, New HR Payroll System, and Interim Website). The appointment of two experienced Project Managers to oversee both the staff transition and system replacement work is seen as an effective control. The Project Managers meet weekly with the Assistant Director – Corporate Services for a project board meeting and document project progress through regular highlight reports.

During our review in October and November it was clear these projects are running to a tight deadline. One area of potential weakness related to the resource planning. Although project leads have been appointed, the resource planning for the SAP replacement projects and business as usual (BAU) is not at a level which considered the overall level of resource required, skills required, and if all officers who need to be involved in the project delivery have capacity at the points in time they are required. The issue of staff availability was escalated by the Project Board at the end of November in relation to the new finance system. This was to ensure staff in key service areas are available to provide adequate time to these projects. In some cases, to accommodate this staff have been moved from BAU to the relevant project on a full time basis.