

Taunton Deane Borough Council

Corporate Governance Committee – 28th September 2015

Internal Audit Plan 2015-16 Progress

Report of the Assistant Director – Alastair Woodland

(This matter is the responsibility of Executive Councillor John Williams, the Leader of the Council).

1. Executive Summary

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.

The 2015-16 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. Background

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.
- 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.

3. Detailed Update

Please refer to the attached SWAP Progress Report

4. Finance Comments

There are no specific finance issues relating to this report.

5. Legal Comments

There are no specific legal issues relating to this report.

6. Links to Corporate Aims

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.

7. Environmental Implications

There are no direct implications from this report.

8. Community Safety Implications (if appropriate, such as measures to combat anti-social behaviour)

There are no direct implications from this report.

9. Equalities Impact

There are no direct implications from this report.

10. Risk Management

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.

11. Partnership Implications

There are no direct implications from this report.

12. Recommendations

Members are asked to note progress made in delivery of the 2015/16 internal audit plan and significant findings since the previous update in June 2015.

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Taunton Deane Borough Council

Report of Internal Audit Activity, September Update, 2015/16

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SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the PSIAS and the CIPFA Code of Practice for Internal Audit in England and Wales.

Our audit activity is split between:

- Operational Audit
- Key Control Audit
- Governance, Fraud & Corruption Audit
- IT Audit
- Special Reviews

See Appendix A for individual audits

Role of Internal Audit

The Internal Audit service for Taunton Deane Borough Council is provided by South West Audit Partnership (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 and last reviewed at its meeting on 9th March 2015.

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
- Key Financial Control Reviews
- Cross Cutting Fraud and Governance Reviews
- IT Audit Reviews
- Other Special or Unplanned Reviews

Overview of Internal Audit Activity

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 at its meeting in March 2015.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk. Key Control Audits are undertaken in quarter three of each year and these are planned in conjunction with the Council's External Auditor to assist in their assessment of the Council's financial control environment. This reduces the overall cost of audit to the Council.



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Update 2015-16

Completed Audit Assignment in the Period

Audit Plan Progress

The schedule provided at [Appendix A](#) contains a list of all audits as agreed in the Annual Audit Plan 2015/16. 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 “control assurance” opinions together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as shown in [Appendix C](#)

As can be seen from [Appendix A](#) the following audits have been progressed to date:

Operational:

- Draft, 2 reviews (Crematorium, Housing Voids)
- In Progress, 3 reviews (DLO Stores, Food Safety, Gas Servicing)
- Not Started, 4 reviews

Governance, Fraud and Corruption:

- Final, 1 Review (Business Incentive Grants)
- Drafting, 1 Review (Business Continuity)
- In Progress, 1 Review (Cash & Banking)
- Not Started, 2 reviews

Follow-up Reviews:

- Final, 1 review (Data Transparency)
- In progress, 1 Review (Parks and Open Spaces)

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

Audit Plan Progress

ICT Reviews

- Final, 1 review (Disaster Recovery)
- Not Started, 2 reviews

Audit Plan Progress – Outstanding 2014-15 Audits

I have provided an update since the last progress report in June 2015. There were nine reviews not at final report stage in June 2015. Three have now been finalised, three are at draft report stage and three are at the review stage. Details of these nine reviews are provided at the end of [Appendix A](#).

Report on Significant Findings

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. I attach as [Appendix B](#), a summary of the agreed high priority actions relating to those reviews completed that have not been previously reported where the Auditor assessed the priority to be a level 4 (Medium/High) or 5 (High).

Since my last update there are two reviews concluded and assessed as 'Partial' with the Auditor's Opinion as follows:

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

Report on Significant Findings

Business Grants – Partial Assurance

The Investment Business Grants are offered to help increase the number of full time jobs available in the Taunton Deane area and therefore boost the local economy. However, the current arrangements for assessing the suitability of applicants is not robust to challenge the assumptions behind the financial figures provided.

There is also no process to confirm if the applicant has already or has been in receipt of public sector financial support. Although unlikely, this could potentially fall foul of limitations on State Aid or fail to identify restrictions for those in receipt of support through other concessions, such as NDR relief or commercial rent relief. A number of lower level weaknesses were identified too, which if addressed would enhance the grants process.

Disaster Recovery – Partial Assurance

A Disaster Recovery agreement exists between Southwest One and Taunton Deane ICT Services for them to provide ICT Services in the event ICT is unable to do so, for example if there was a fire or flood or other disaster impacting on the ICT Operations that housed on the ground floor of the Taunton Deane Borough Council building.

The agreement only exists in draft form and does not include ICT contact information and specific disc space capacity that will be made available to Taunton Deane. In addition the agreement does not commit to any specific recovery time although SWAP has been advised that it would take at least three days to recover the first application.

The agreement provides for the recovery of up to six critical business applications to be provided by Taunton Deane, however these have not been identified.

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

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

Report on Significant Findings Continued

Additional concerns, which have already been reported to Management, include the small distance between the Southwest One ICT facilities that are located on the ground floor of the Somerset County Council building less than 1.5 miles from the Taunton Deane facilities. The close proximity means that a disaster could potentially impact both locations resulting in no Disaster Recovery capability for Taunton Deane.

Therefore this review, based on our assessment criteria, has identified the following potential 'High' risk: *“key business operations cannot be recovered on a timely basis when a disaster occurs”*.

Future Planned Work/Plan Changes

The audit plan for 2015/16 is detailed in [Appendix A](#). Members will note that where necessary any changes to the plan throughout the will have been subject to agreement with the appropriate service manager and the Section 151 Officer.

A number of partial assurance audits have been identified and whilst there is time available to accommodate some of these reviews, there will be a need to review the plan to ensure that all partial assurance audits can be followed up. This is to provide assurance to the audit committee that areas of control failure/weakness are addressed.

Conclusions

There has been some time put in to clearing the 2014/15 plan and I am pleased to report that all field work is complete. Steady progress is being made against the 2015/16 plan and we have identified a 'High' risk in relation to Disaster Recovery arrangements.

I would also bring to your attention the unusually high number of partial assurance opinions being returned when considering both those recently finalised and those at draft. Whilst this is a concern it is worth noting that Senior Management have been proactive in asking us to look at areas where they have concerns so we can identify and articulate the control weaknesses and develop an action plan for improvement. All our reports are copied to the Strategic and Performance Manager so actions can be monitored through the corporate performance monitoring framework.

Audit Plan 2015-16

Audit Plan Progress 2015-16

APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Final Report											
Follow Up	Data Transparency	Q1	Final	Follow – up	3	0	2	0	1	0	
ICT Audits	Disaster Recovery Audit	Q1	Final	Partial	5	0	0	1	4	0	
Governance, Fraud & Corruption, Cross Cutting	Business Incentive Grants	Q1	Final	Partial	11	0	3	7	1	0	
Draft Report											
Governance, Fraud & Corruption	Business Continuity	Q1	Review								Report on hold whilst work completed at other Somerset Districts to feed into the recommendations.
Operational Audit	Crematorium	Q1	Draft Report	Non-Opinion	3	0	0	2	1	0	
Operational Audit	Housing Voids	Q1	Discussion Document	Partial							



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Audit Plan 2015-16

Audit Plan Progress 2015-16

APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
In Progress											
Follow Up	Parks & Open Spaces	Q1	In Progress								
Governance, Fraud & Corruption	Cash & Banking	Q2	In Progress								
Operational Audit	Stores	Q2	In Progress								
Operational Audit	Food safety	Q2	In Progress								
Key Control	Housing Rents	Q2	In Progress								
Operational Audit	Gas Servicing	Q2	In Progress								
Not Started											
Governance, Fraud & Corruption	Declaration of Interests, Gifts and Hospitality & Ethical Standards	Q2									Planned to Start September
ICT Audits	Information Systems - Finance	Q2									Due to Start September but bulk of work scheduled for October 2015.



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Audit Plan 2015-16

Audit Plan Progress 2015-16

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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 Programme	Q3									
Key Control	Main Accounting	Q3									
Key Control	Creditors	Q3									
Key Control	Council Tax & NNDR	Q3									
Key Control	Debtors	Q3									
Key Control	Housing Benefits	Q3									
Key Control	Payroll	Q3									
Key Control	Treasury Management	Q3									
ICT Audits	Physical and Environmental Controls / Data Centre	Q4									
Operational Audit	Homelessness	Q4									
Operational Audit	Deane Help Line	Q4									



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Audit Plan 2015-16

Audit Plan Progress 2015-16

APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Operational Audit	Land Charges	Q4									
Operational Audit	Housing - Responsive Maintenance	Q4									

Outstanding 2014-15 Audits update from June Committee

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	1	2	
ICT Audits	Software Asset Management (New)	Q2	Draft Report	Partial	11	0	0	7	4	0	
ICT Audits	Hardware Asset Management (New)	Q2	Review		-	-	-	-	-	-	
Operational Audit	Housing Sales (right to buy)	Q2	Final	Reasonable	1	0	0	1	0	0	
Governance, Fraud & Corruption	Fraud Theme - Housing	Q3	Final	Reasonable	6	0	3	3	0	0	
ICT Audits	Financial Key Controls	Q3	Review		-	-	-	-	-	-	



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Audit Plan 2015-16

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor		5 = Major		Comments	
						Recommendation					
						1	2	3	1		2
Governance, Fraud & Corruption	Choice Based Letting	Q4	Review		-	-	-	-	-		
Governance, Fraud & Corruption	Asset Management Theme	Q4	Draft Report	Partial	13	0	2	7	4	0	
Operational Audit	Community Infrastructure Levy (CIL)	Q4	Final	Reasonable	6	0	0	6	0	0	
Operational Audit	Commercial Properties/Rents	Q4	Draft Report	Partial	6	0	0	5	1	0	



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Internal Audit Plan 2014-15 - Outturn

High Priority Findings and Recommendations (Priority 4 or 5 only)

APPENDIX B

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
Business Grants					
The financial documents received at application are not currently reviewed by anyone with relevant financial experience with little challenge.	Businesses are awarded grants despite not being financially sustainable leading to failure and reputational damage.	I recommend that the Assistant Director, in liaison with Members, strengths and re-approves the criteria for awarding business grants and considers whether financial documentation received within the application process should be independently reviewed.	Agreed – Will review with Portfolio Holder to agree refreshed checks in this area.	31 December 2015	Assistant Director (BD)
Disaster Recovery Arrangements					
Business Continuity plans do not consider the ICT Resources that will be made available by Southwest One.	Business Continuity Plans could place a false security/expectation on the level of ICT that is actually available in a disaster scenario.	Southwest One's Disaster Recovery plan and related capabilities should be shared with Section Heads in order that Business Continuity plans can be updated to reflect the limited facilities that will be made available as a result of an ICT disaster that results in invoking the Disaster Recovery plan.	Agreed. The current SWO ICT DR plan will be finalised & provided to Service Heads by 30 Sep 2015. Additionally, we are currently reviewing & improving our corporate business continuity processes and as part of this will be producing a refreshed ICT DR plan by the end of Oct 2015.	30 Sep 2015	Assistant Director Taunton Deane Borough Council



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Internal Audit Plan 2014-15 - Outturn

High Priority Findings and Recommendations (Priority 4 or 5 only)

APPENDIX B

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
The scope of the DR test provided proof of concept but did not demonstrate business operations could be recovered.	Critical users may not be able to utilise the application once recovered.	I recommend that the scope of future testing be expanded to ensure the applications and business activities can be recovered and made operational using the Disaster Recovery and planned Business Continuity facilities.	Agreed. We will agree the scope of future testing with the SWO ICT Service by 30 Sep 2015 and undertake a further test by 31 Dec 2015	31 Dec 2015	ICT and Information Manager Community and Client Services Manager
The Disaster Recovery Plan is in draft and is incomplete as it does not include storage capacity, timeframe for recovery.	Critical applications may not be up and running in a reasonable period of time post disaster.	I recommend that the ICT and Information Manager review and update the Disaster Recovery Plan to include the disc space that will be provided, the expected minimum recovery times, a schedule of critical applications (recommendation 29250) and contact details for ICT. Once the details have been defined the draft DRP document should be formally approved by both TDBC and Southwest One.	Agreed	30 Sep	ICT and Information Manager



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Internal Audit Plan 2014-15 - Outturn

High Priority Findings and Recommendations (Priority 4 or 5 only)

APPENDIX B

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
<p>The critical business applications, to be recovered in the event of a disaster, have not been identified.</p>	<p>Valuable time will be lost in a disaster situation if the applications are not identified upfront.</p>	<p>I recommend that the Assistant Director review the Disaster Recovery capabilities provided by SWOne and through review and agreement with Section Heads identify the six critical applications that should be recovered.</p> <p>In addition the capabilities and timeliness of the services provided should be reviewed for appropriateness, and shared with Business Continuity planners in order that their expectations can be adjusted accordingly. Although it is not stated in the Disaster Recovery plan, SWAP understands that the first application could take three or more business days to recover from the time the Disaster is declared to SWOne.</p>	<p>Agreed</p> <p>Agreed. (NB. The time to recover specific applications will be dependent on the size and complexity of the particular applications and will need to be taken into account when identifying the 6 critical applications).</p>	<p>30 Sep</p>	<p>Assistant Director Taunton Deane Borough Council</p>

Audit Framework 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.
None	▲★★★ 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.

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.

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.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

