

Taunton Deane Borough Council

CORPORATE GOVERNANCE COMMITTEE 20th December 2010

INTERNAL AUDIT PLAN – PROGRESS REVIEW

Report of the Group Audit Manager – Chris Gunn - (South West Audit Partnership)

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

1. Executive Summary

This report highlights significant findings and recommendations that have occurred since the Committee last considered the detailed findings of Internal Audit reports in September 2010.

2. Background

To provide members with an update on the activities of the Internal Audit team for the period October to December 2010.

3. Audits Completed and Progress against Plan

Please see attached report.

5. Finance Comments

N/a

6. Legal Comments

N/a

7. Links to Corporate Aims

Internal Audit's role is to assure Members and managers that adequate controls are in place and to issue reports and recommendations to address weaknesses in internal control. The Corporate Governance Committee has a key role to play in monitoring the Council's Corporate Governance arrangements. CiPFA defines part of its core function as including the review of summary internal audit reports and the main issues arising, and seeking assurance that action has been taken where

necessary. This contributes to the Corporate Health priority, which underpins all the Council's priorities.

8. Environmental and Community Safety Implications

N/a

9. Equalities Impact

N/a

10. Risk Management

N/a

11. Partnership Implications

N/a

12. Recommendations

The Committee should note the content of this report.

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Taunton Deane Borough Council

Report of Internal Audit Activity
Quarter 3, 2010/11

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Our audit activity is split between:

- **Operational Audit**
- **Managed Audit**
- **Governance, Fraud & Corruption**
- **Special Reviews**

Role of Internal Audit

The Internal Audit service for Taunton Deane Borough Council is provided by South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors, but 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 15th March . Internal Audit provides an independent and objective opinion on the Council's control environment by evaluating its effectiveness. Primarily the work includes;

- Plan of Operational Reviews
- Annual Review of Key Financial System Controls (Managed Audits) - scheduled for Quarter 3
- Annual review of key governance and fraud controls

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 the Corporate Governance Committee at its meeting in March.

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

Quarter 3 Outturn:

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 Programme

The schedule provided at [Appendix A](#) contains a list of all audits as agreed in the Annual Audit Plan 2010/11. 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](#).

Where assignments record that recommendations have been made to reflect that some control weaknesses have been identified as a result of audit work, these are considered to represent a less than significant risk to the Council’s operations. However, in such cases, the Committee can take assurance that improvement actions have been agreed with management to address these.

Quarter 3 Outturn:

Completed Audit Assignments In The Period

Operational Audits

Operational Audits are a detailed evaluation of a service's 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.

During the period the Customer Services audit was completed. For the Debtors and Creditors audits draft reports were produced. We have also started the audit on Main Accounting and Housing Benefit Fraud.

Managed Audits

Managed Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. There are seven such audits within the 2010/11 Audit Plan and all are scheduled to be carried out in Quarter 3.

During the period, all seven Managed Audits have been started. For Treasury Management a final report has been issued and for Capital Accounting a draft report has been issued. For the balance of these audits we expect to produce draft reports by the end of December 2010.

Quarter 3 Outturn:

**Completed Audit
Assignments In The Period**

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.

Three governance audits have been completed these being :

- Equalities and Diversity (Impact Assessments)
- Health and Safety
- N188 Use of Natural Resources

Special Reviews

There have been no further special reviews carried out since the Quarter 2 Outturn report.

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

Future Planned Work

This is detailed in [Appendix A](#) and is obviously subject to any changes in agreement with the S151 officer.

Conclusions

For those audits still required by the client SWAP are on target to complete those audits as planned. For the audits completed to report stage each report contains an action plan with a number of recommendations which are given service priorities. Definitions of these priorities can be found in the Categorisation of recommendations section in [Appendix C](#).

SWAP have recently implemented a change to the audit process for operational reviews whereby an assessment on the management of each risk is included in reports. Any risks where the auditor's assessment of risk to the organisation is "Very High" will be reported to the Audit Committee.

Audit report findings which have priority scores 4 or 5 are highlighted in [Appendix B](#) together with recommendations and management responses.

TDBC management have responded positively to internal audit suggestions for improvements and corrective action has already been taken in a number of cases.

Appendix A

Directorate/Service	Audit Area	Quarter	Audit Days	Status	Opinion	No. of recs	1 = Minor → 5 = Major				
							Recommendations				
							1	2	3	4	5
Operational Audits	Building Control	Apr-10	15	Final Report	Reasonable	8	0	0	6	2	0
Operational Audits	Property Services	Apr-10	20	Removed			0	0	0	0	0
Operational Audits	Customer Services	Apr-10	20	Final Report	Reasonable	5	0	0	3	2	0
Operational Audits	Choice Based Lettings	Apr-10	15	Removed			0	0	0	0	0
ICT - Policy	SWAP Information Security Group - SISG	Apr-10	4	In Progress	Non Opinion		0	0	0	0	0
ICT - Security	Threat Protection	Apr-10	8	Deferred			0	0	0	0	0
Governance, Fraud & Corruption	Data Quality - Performance Indicators	Apr-10	8	Final Report	Comprehensive	0	0	0	0	0	0
Governance, Fraud & Corruption	Procurement (Category Management)	Apr-10	10	Draft Report			0	0	0	0	0
Governance, Fraud & Corruption	Risk Management (Risk Registers including Major Projects)	Apr-10	10	In Progress			0	0	0	0	0
Client Support	Special Review - DLO Due Diligence	May-10	35	Draft Report	Non Opinion		0	0	0	0	0
Operational Audits	Creditors	Jul-10	20	Draft Report			0	0	0	0	0
Operational Audits	Debtors	Jul-10	20	Draft Report			0	0	0	0	0
Operational Audits	Main Accounting	Jul-10	20	In Progress			0	0	0	0	0
ICT - Security	Corporate back up routines	Jul-10	8	In Progress			0	0	0	0	0
Governance, Fraud & Corruption	Equalities and Diversity - Impact Assessments	Jul-10	8	Final Report	Partial	5	0	0	5	0	0
Governance, Fraud & Corruption	Health and Safety	Jul-10	5	Final Report	Partial	7	0	0	7	0	0
Governance, Fraud & Corruption	Performance - NI 179 Efficiency Statements	Jul-10	5	In Progress			0	0	0	0	0
Governance, Fraud & Corruption	Performance - NI 188 Use of Natural Resources	Jul-10	5	Final Report	Comprehensive	0	0	0	0	0	0
Client Support	Special Review - Parking Services Stock	Jul-10	8	Final Report	Non Opinion	0	0	0	0	0	0
Client Support	Special Review - Licensing Cash Handling	Aug-10	12	Final Report	Non Opinion	0	0	0	0	0	0
Operational Audits	Housing Benefits Fraud	Oct-10	15	In Progress			0	0	0	0	0
Operational Audits	Review of Core Council Arrangements	Oct-10	15	Removed			0	0	0	0	0
Managed Audits	Capital Accounting	Oct-10	5.5	Draft Report			0	0	0	0	0
Managed Audits	Council Tax	Oct-10	11	In Progress			0	0	0	0	0
Managed Audits	Housing Benefits	Oct-10	11	In Progress			0	0	0	0	0

Managed Audits	Housing Rents	Oct-10	11	In Progress			0	0	0	0	0
Managed Audits	NNDR	Oct-10	8	In Progress			0	0	0	0	0
Managed Audits	Payroll	Oct-10	11	In Progress			0	0	0	0	0
Managed Audits	Treasury Management	Oct-10	5.5	Final Report	Reasonable	4	0	2	2	0	0
Operational Audits	Legal Services	Jan-11	15	Removed			0	0	0	0	0
Operational Audits	Deane Helpline Income	Jan-11	15	New audit			0	0	0	0	0
Operational Audits	Partnership Arrangements	Jan-11	15				0	0	0	0	0
Operational Audits	Section 106 Agreements	Jan-11	15				0	0	0	0	0
Operational Audits	Strategic Housing	Jan-11	20	Removed			0	0	0	0	0
Governance, Fraud & Corruption	Business Continuity (Major Partnerships and Contractors)	Jan-11	8				0	0	0	0	0
Governance, Fraud & Corruption	Gifts & Hospitality - Register of Interests - Members	Jan-11	3	Final Report	Reasonable	7	0	3	4	0	0
Governance, Fraud & Corruption	Gifts and Hospitality - Register of Interests	Jan-11	3	Final Report	Reasonable	8	0	4	4	0	0
Governance, Fraud & Corruption	Fees and Charges	Jan-11	5	Final Report	Reasonable	3	0	0	3	0	0
Governance, Fraud & Corruption	Income Collection (Analytical Review including Budgets and Methods of Payment	Jan-11	8				0	0	0	0	0

Appendix A

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Audit Framework Definitions

Control Assurance Definitions

Comprehensive	▲ ★★★ I am able to offer comprehensive 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.