

Taunton Deane Borough Council

Corporate Governance Committee – 12 December 2011

Internal Audit Plan Progress 2011-12

Report of the Group Audit Manager – Chris Gunn

(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 2011-12 Annual Audit Plan is on track 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 September.
- 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.

Members will note that the report concludes that the audit work carried out to date in 2011/12 has identified a number of weaknesses within the internal control environment that expose the council to unacceptable risk.

3. (Full details of the Report)

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. The most significant findings since the last committee report are documented in Appendix B.

11. Partnership Implications

There are no direct implications from this report.

12. Recommendations

Members are asked to note progress made in delivery of the 2011/12 internal audit plan and are invited to comment on the significant findings identified.

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Taunton Deane Borough Council

Report of Internal Audit Activity
December 2011/12 Progress Update

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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 14th March 2011. 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)
- 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 2011.

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

Quarter 2 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 2011/12. 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 2 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.

There were six operational audits scheduled for quarter 2 within the TDBC Audit Plan for 2011/12. These were:

- a) Heritage and Landscape Services
- b) Economic Development
- c) Leases - Rents Receivable
- d) Supporting People
- e) Housing Benefit Subsidy
- f) Legal Services

All quarter 2 operational audits are at least to draft with the exception of leases. The field work has been completed and the draft report is being produced. The Legal Services audit had been removed from the audit plan following discussion with the client. To make use of the available audit resource for the Legal Services audit we commenced an audit on Licensing Income in quarter 2 which was originally scheduled for quarter 4.

Key Control Audits

Key Control Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. Key control audits are scheduled for quarter 3. At the time of writing this report all key control audits with the exception of Housing Benefits were either in progress or at draft report stage. Please refer to [Appendix A](#) for audit progress details.

Quarter 2 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.

The TDBC Audit Plan for 2011/12 included three Governance audits which were scheduled for quarter 2. These were:

- a) Threat from Fraud and Corruption
- b) Information Governance
- c) Annual Governance Statement Review

The scope for the Annual Governance Statement review was amended to provide advice in the construction of the Statement and the number of days required was considerably reduced. The Threat from Fraud and Corruption review is at final report and the information governance review at draft.

We have a further 3 audits scheduled for quarter 4 which are : Equalities and Diversity, Safeguarding of Children and Vulnerable adults and Service Planning.

IT Audits

Since the September Internal Audit update work has commenced on the only IT audit scheduled for quarter 3, CoCo. This review is a form of gap analysis focusing on the controls the external Government Connect auditors do not cover in their annual compliance audit, our piece of work should ensure that the Council is not exposed to any other significant risks. There is one further IT audit scheduled for quarter 4 looking at the IT Strategy.

Quarter 2 Outturn:

Completed Audit Assignments In The Period

Special Reviews

Other reviews are carried out at the request of management in response to an identified issue or to a new and emerging risk. Internal audit are also sometimes asked to provide guidance or support in relation to projects being undertaken and also facilitate control and risk workshops.

Internal Audit has been involved in 3 special reviews to date. A special review was commenced in quarter 2 to examine the procedures in the granting of a licence over some land owned by TDBC. This review is at draft report. Internal audit are also undertaking a review on Project Taunton focusing on the governance and project management arrangements in place. This review has replaced the quarter 4 Housing Property Services - Contract Allocation/Monitoring audit. In addition to these two reviews, Internal Audit are also providing support to Democratic Services who are investigating the Disclosure of Confidential Information.

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

The 2011-12 Internal Audit Plan is detailed in [Appendix A](#) and is obviously subject to any changes in agreement with the S151 officer.

Conclusions

Taunton Deane, in keeping with other public sector services, is in a process of significant change and SWAP itself has had some resource issues of its own, including the imminent departure of our IT Audit Manager. However, although delivery of the audit plan had slipped earlier in the year, progress has been made to bring it back on track and we are confident in our ability to deliver the plan as agreed.

Each audit 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](#).

Of the twelve reviews completed to final, six have returned an audit opinion of 'partial assurance'. The most significant issues relate to weaknesses in the controls for robust contract management and monitoring. All audit report findings which have a priority score 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.

Directorate/Service	Audit Area	Quarter	Status	Opinion	No. of recs	1 = Minor ← → 5 = Major				
						Recommendations				
						1	2	3	4	5
Governance, Fraud & Corruption	Safeguarding of Children and Vulnerable Adults (Theme Audit)	4								
Governance, Fraud & Corruption	Service Planning (Theme Audit)	4								
IT Audits	IT Strategy	4								
Operational Audits	Housing Property Services - Contract Allocation/Monitoring	4	Dropped							
Operational Audits	Licensing Income	4	Draft Report							
Operational Audits	Planning Fees	4								
Operational Audits	Waste and Recycling (Contribution to SWP Plan)	4								

Additional Reviews

Special Review	Sale of Land	2	Draft Report							
IT Audits	IT Asset Management	2	Draft Report							
Special Review	Disclosure of confidential information	3	In Progress							
Special Review	Project Taunton	3	In Progress							

Schedule of Key Actions from 2011/12 Internal Audit Work completed by SWAP (since the September 2011 Progress Report)

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
October 2011	Threat from Fraud or Corruption (Policy Review)	There is no Counter Fraud and Corruption Policy/Strategy in place.	Without an up-to-date Counter Fraud and Corruption Policy and Strategy there is a risk that an effective framework is not in place and that stakeholders may not be clear on reporting arrangements in the event of identifying a potential fraud.	I recommend the Legal and Democratic Services Manager ensures that a Corporate Counter Fraud and Corruption Policy and Strategy is developed and approved and disseminated to all stakeholders.	Agreed – A policy will be developed and approved.	April 2012
October 2011	Contract Management Monitoring	Contract Standing Orders have not been updated since 2006. They do not reflect the Partnership with Southwest One.	There is a risk that if Contract Standing Orders do not reflect current procurement procedures (Southwest One) and are not relevant to the current priorities of the Council then procurement activities may not be correctly authorised, governed or achieve best value.	I recommend that the Legal & Democratic Services Manager ensures that Contract Standing Orders are reviewed and revised to ensure that they reflect the Authority's current practices in regards to procurement.	This is noted and will be rectified.	April 2012

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
October 2011	Contract Management Monitoring	There is currently no central contract register in place.	<p>There is a risk that without a contracts register in place there is no corporate method of monitoring all the Authority's current contracts. This could mean that procurement and works with suppliers continue after a contract has ended potentially resulting in a loss of best value.</p> <p>There is an additional risk that if Southwest One are not aware of all the Authority's current contracts then when a contracts register is created there will be no assurance that all contracts have been registered.</p>	a) I recommend that the Chief Procurement Officer - Southwest One ensures that a contracts register is appropriately designed and created.	SPS have an obligation to maintain a contract register but recognise this does not currently exist. SPS has now developed a template for the purposes of building such a database, which can be used for TDBC.	31 December 2011

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
October 2011	Contract Management Monitoring	As above	As above	b) I recommend that the Performance and Client Lead in liaison with the Chief Procurement Officer - Southwest One ensure an exercise commences to ensure that all contracts currently in place with the authority are established in preparation for entry onto the contract register.	A recent request has been made of all Theme Managers within the Council to identify all contracts which are in place for spend over the OJEU threshold. This is in the process of being collated (in relation to a FOI request). A further request will be made of all services to provide SPS with details of all contracts below that threshold for inclusion onto a register. SPS will also populate the register with details of all contracts which it has let on behalf of TDBC.	Commence 31 December 2011
October 2011	Contract Management Monitoring	Suppliers are still being used where contracts have expired.	Due to suppliers being used which are not contracted, there is a risk that the authority is not able to demonstrate that best value is being achieved.	I recommend that the Chief Procurement Officer - Southwest One ensures that all expired contracts are retendered to ensure that best value is being achieved.	This is dependent upon services providing SPS with details of current contracts, which they have in place and making SPS aware of the expiration date.	31 December 2011

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
October 2011	Managing complaints	From a sample of ten complaints tested, six were not responded to within the ten day time target period. Of these six, no evidence was found of correspondence being sent to the complainant warning them of the delays that were being faced.		I recommend that the Face to Face Operational Manager issues a reminder to all relevant Officers to state that when the target ten day period is not adhered to, evidence is retained of Officer acknowledgement of the complaint, and correspondence sent to the complainant acknowledging the delay. Telephone correspondence should be logged on the SAP CRM system.	Agreed Action plan being developed, including new staff guidance, plan to share draft with Leads meeting in January 2012 and go live February 2012. Interim measure will be reminder on all CF emails of the response target date for Managers guidance.	February 2012
October 2011	Managing complaints	From a sample of ten complaints received locally (not by the central customer contact centre), it was found that none of them had been recorded onto the SAP system by appropriate officers.		I recommend that Taunton Deane Senior Management issue a reminder to all responsible Officers of the requirement to upload all complaints received onto the SAP system in a timely and accurate manner.	Agreed Interim measure will be email by TD Snr Management to all Managers reminding them to forward all CF & correspondence received by Service to Face to Face Operational Manager for uploading to SAP CRM.	February 2012

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
October 2011	Choice Based Lettings	The CBL system currently is not capable of deleting completed personal housing applicant records from the system.	At present, the Borough is at an elevated risk in respect of the body of 'old' personal data held within the CBL Abrisas system in respect of DPA compliance.	I recommend that the Strategic Director maintain pressure on the developers of the Abrisas system through the Somerset partnership for the implementation of an upgrade that will allow the deletion of old, completed application records.	Agreed – to be advanced through the quarterly Homefinder Somerset quarterly Monitoring Board.	30 October 2012

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.