

Taunton Deane Borough Council

CORPORATE GOVERNANCE COMMITTEE – 14 MARCH 2011

INTERNAL AUDIT PLAN 2010/11– PROGRESS REPORT

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 reports the current position of the Internal Audit Plan for 2010/11. This report also 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 2010 to March 2011.

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 3/4, 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 2010. 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 2010.

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

Quarter 3/4 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 3/4 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 since the September report we have completed four audits :

- Customer Services
- Debtors
- Creditors
- Housing Benefit Fraud.

The audit on Main Accounting is at discussion document stage. The audits of Partnership Arrangements and S106 are currently in progress.

Following agreement with the client the audits of Legal Services, Strategic Housing and Core Council Arrangements have been deferred to a later year. An additional audit based upon a review of the TDBC Whistleblowing Policy has been added to the current year's audit plan.

Managed Audits

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

During the period since the September report all seven Managed Audits have been completed to Draft or Final Reports. The report for Council Tax and NNDR was issued as joint report.

Quarter 3/4 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.

During the period since the September report an additional six governance audits have been completed to draft or final report stage these being :

- Equalities and Diversity (Impact Assessments)
- Health and Safety
- N179 Efficiency Statements
- N188 Use of Natural Resources
- Procurement (Category Management)
- Risk Management (Risk Registers including Major Projects)

The remaining two audits which are Business Continuity (Major Partnerships and Contractors) and Income Collection will be completed by the year end.

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

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	8	0	1	6	1	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	Partial	11	0	0	5	6	0
Governance, Fraud & Corruption	Risk Management (Risk Registers including Major Projects)	Apr-10	10	Final Report	Reasonable	2	0	0	2	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	Final Report	Partial	15	0	0	3	9	3
Operational Audits	Debtors	Jul-10	20	Final Report	Partial	12	0	3	9	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	Final Report	Reasonable	1	0	0	1	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	Completed			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
Client Support	Whistleblowing Policy	Jan-11	5	In Progress							
Managed Audits	Capital Accounting	Oct-10	5.5	Final Report	Reasonable	4	0	4	0	0	0
Managed Audits	Council Tax	Oct-10	11	Draft Report	Partial	16	0	6	9	1	0

Managed Audits	Housing Benefits	Oct-10	11	Final Report	Comprehensive	3	0	3	0	0	0
Managed Audits	Housing Rents	Oct-10	11	Draft Report	Partial	13	0	1	9	3	0
Managed Audits	NNDR	Oct-10	8	Draft Report	Partial	16	0	6	9	1	0
Managed Audits	Payroll	Oct-10	11	Draft Report	Reasonable	5	0	3	1	1	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	In Progress			0	0	0	0	0
Operational Audits	Partnership Arrangements	Jan-11	15	In Progress			0	0	0	0	0
Operational Audits	Section 106 Agreements	Jan-11	15	In Progress			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	In Progress			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	In Progress			0	0	0	0	0

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date	
CREDITORS						
Objective: To ensure key system controls are operating effectively and that fraud, error or corruption is minimised. To process invoices promptly and accurately						
1. Risk: Transaction or event has not occurred or does not relate to the audited body						
1.1a	Invoices/PRF's are paid as long as they are signed. The signatories are not verified against an approved list.	I recommend that the Section 151 Officer monitors the level of PO compliance and encourages three-way matching.	5 – High	Agreed. Action is being taken to improve the use of 3 way matching. The Performance and Client Lead will drive a project to improve compliance.	S151 Officer	Immediate
1.1b	10 of the 22 invoices sampled were paid between 3-115 days late.	I recommend that the Section 151 Officer ensures that staff within the Council are reminded to deal with webcycles promptly.	4 – Medium/ High	Agreed. The reports from the system on this need to provide more detail to help us achieve this. The Performance and Client Lead will liaise with SW1 to progress this. See 4.2 b	S151 Officer	April 2011
1.1c	Direct input bypasses main system authorisation controls.	I recommend the Section 151 Officer ensures guidance is issued to staff on when the Direct Input payment method is used.	5 – High	Agreed. We are currently investigating the levels of direct input across each department and will work with Theme Managers to reduce this if appropriate. The Strategic Finance Officer and The Performance and Client Lead are leading on this.	S151 Officer	April 2011

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
1.1d VAT invoices not held for payments where VAT is applicable.	I recommend that the Section 151 Officer ensure that where applicable a VAT invoice is received from suppliers.	4 – Med/High	Agreed – this will be resolved. The Strategic Finance Officer is leading on this.	S151 Officer	April 2011
2. Risk: Fraudulent or duplicate payments are made					
2.1a Duplicate supplier records still exist on the system.	I recommend that the Shared Accounting Manager ensures that a decision is made on whom is responsible for disabling duplicate supplier records from the system and that this task is performed as soon as possible.	4 – Med/High	Agreed Southwest One is developing a strategy for the cleansing of the vendor database	Shared Accounting Manager	1 May 2011
2.2a Numerous duplicate payments continue to be processed through the creditors system.	I recommend that the Shared Accounting Manager determines why duplicate payments continue to occur and from this reviews the effectiveness of appropriate duplicate controls.	5 – High	Agreed - New prepayment duplicate controls are being introduced in early 2011, these are designed to supplement the basic controls in SAP. Data on the cause of these duplicates will be used to educate users	Shared Accounting Manager	28 February 2011

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
<p>2.3a A detailed check was not undertaken prior to a suppliers bank details being amended.</p>	<p>I recommend that the Head of Procurement Operations ensures that a procedure is written to deal with any requests for change in supplier bank details. This should include a formal check via telephone or email from an approved source to ensure that the details of the request are legitimate.</p>	<p>4 – Med/High</p>	<p>A Project Group is being created to address the issue of vendor creation, part of which is guidance and processes required on duplicate payments. In addition it is not best practice to contact every supplier who is set up on the system re: bank details. SCC requested over 1000 suppliers be created in the last 5 month period. We would prefer to see a banding of suppliers in relation to spend and place a series of checks in place determined by the level of spend we will conduct with said supplier. Additionally most fraud attempts have been via change to bank details and text for this has been drafted previously however, until the project team is established to review this then it will not be released yet.</p>	<p>Head of Procurement Operations</p>	<p>30 Sept 2011</p>
<p>3.1b Staff are not adequately trained in the use of SAP.</p>	<p>I recommend that the Section 151 Officer reviews the current training arrangements for new staff and decides whether these are adequate for all levels of operational staff and management.</p>	<p>4 – Med/High</p>	<p>I disagree that staff aren't adequately trained. We have invested heavily in this. We do have SAP Champions across the organisation and new joiners are picked up through this route.</p>	<p>N/A</p>	

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
4. Risk: Staff training and user confidence is negative					
4.1a Contingency arrangements are not documented.	I recommend that the Accounts Payable Manager outlines contingency arrangements for the key risk areas and that these are documented and made available to appropriate key staff within the Creditors Team.	4 – Med/High	Disagree – the SW1 Finance business continuity plan outlines the steps to be taken in the event of reduced staff numbers, secondly the use of repetitor means that we are not reliant on human intervention to automatically post invoices for payment	N/A	N/A
4.2a Contingency arrangements for absent staff has not been determined.	I recommend that the Section 151 Officer ensures that the new 'requisitioners' complete weekly 100% checks against all outstanding web cycles for their service to help reduce the risk of delay in payment.	4 – Med/High	Agreed – more regular review of the web cycle listings will take place..	S151 Officer	April 2011
4.2b Delays in payment of invoices occurred due to the number of outstanding web cycles.	I recommend that the Section 151 Officer ensures that the new 'requisitioners' complete weekly 100% checks against all outstanding web cycles for their service to help reduce the risk of delay in payment.	4 – Med/High	Agreed – The Performance and Client Lead will drive this improvement.	S151 Officer	April 2011

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
4.2c There is no list of requisitioners in place for the resolution team to verify against.	I also recommend that the Section 151 Officer ensures that an updated list of requisitioners is made available to the resolution team and that they use this as the first contact point for web cycle enquiries.	4-Med/High	Agreed – The Strategic Finance Officer to provide.	S151 Officer	April 2011

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.