# Taunton Deane Borough Council

## Corporate Governance Committee – 6 December 2016

### 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 September 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**

| | | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| **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 |

Likelihood (vertical axis) / **Impact** (horizontal axis)

| Likelihood of risk occurring | Indicator | Description (chance of occurrence) |
|---|---|---|
| 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 September 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    X  Quarterly**

☐ **Twice-yearly**       ☐ **Annually**

**List of Appendices (delete if not applicable)**

| | |
|---|---|
| Appendix A | SWAP Internal Audit Progress Report 2016/17 |

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# Taunton Deane Borough Council

Report of Internal Audit Activity

Plan Progress 2016/17 November 2016

**Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy**

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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 this Committee 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.

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**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. Steady progress is being made, with a number of reviews now at final report stage or draft. I would draw members' attention to the SWO Succession Planning audit that focused on the TUPE transfer arrangements for SWO staff returning to TDBC and the project governance arrangements for the SAP replacement project. Whilst this report is currently at draft report stage, I feel it is important to inform the committee that in our opinion there are good governance and project management arrangements in place. However, we feel there is a risk around capacity with pressure on resources to deliver this project as well as business as usual (BAU). This is an area the Project Board are monitoring. Our further on-going work will draw out any significant issues that I need to bring to your attention.

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. Since the last update in September 2016 there have been two 'Partial' assurance audit that I need to bring to your attention, these being Imprest Accounts and User Access Management. Whilst 'Partial Assurance' has been awarded no corporate risks have been identified from these weaknesses. Further details can be found in **Appendix C** on these two audits.

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**We keep our audit plans under regular review so as to ensure that we 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 September there have been a few changes to the Audit Plan. At the request of the HR and Payroll Manager we were asked to defer the quarter 3 payroll audit until quarter 4 due to work commitments on the new payroll project (extracting data from SAP and building the workflows) as well as dealing with the staff returning from SWO.

We were also asked to examine the new building control partnership. To accommodate this, the review on the DLO Transformation/Relocation audit in quarter 4 has been dropped. Where audits are dropped, they are take forward into consideration for the follow year's audit plan.

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**At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";**

- **Substantial**
- **Reasonable**
- **Partial**
- **No Assurance**

## Audit Framework Definitions

**Control Assurance 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. |
| **No Assurance** | ▲ ★ ★ ★ | 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.

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

| Audit Type | Audit Area | Quarter | Status | Opinion | No of Rec | 1 = Minor ⟷ 5 = Major Recommendation | | | | | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1 | 2 | 3 | 4 | 5 | |
| **FINAL** | | | | | | | | | | | |
| 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 *(Starters and Leavers - HR, Facilities, ICT)* | Q2 | Final | Partial | 7 | 0 | 0 | 6 | 1 | 0 | TDBC Recommendations only |
| **DRAFT** | | | | | | | | | | | |
| Follow up | Asset Management | Q2 | Draft | | | | | | | | |
| Governance, Fraud and Corruption | SWO Succession planning (TUPE Transfer and Project Governance) | Q2 | Draft | | | | | | | | |

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| Audit Type | Audit Area | Quarter | Status | Opinion | No of Rec | 1 = Minor ⟷ 5 = Major Recommendation | | | | | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1 | 2 | 3 | 4 | 5 | |
| Key Control | Council Tax & NNDR | Q3 | Discussion Document | | | | | | | | |
| Key Control | Housing Benefits | Q3 | Review | | | | | | | | |
| Governance, Fraud and Corruption | **NEW:** Building Control Partnership | Q3 | Draft Report | | | | | | | | Replaced DLO work |
| Operational Audit | Capital Programme Approval & Monitoring / linked with Contract monitoring | Q2 | Review | | | | | | | | |
| **IN PROGESS** | | | | | | | | | | | |
| ICT | New Financial System | Q2, Q3, Q4 | In Progress | | | | | | | | |
| ICT | SWOne Exit Support/ Advice Days *(Quarter 2,3,4)* | Q2, Q3, Q4 | In Progress | | | | | | | | |
| Key Control | Treasury Management | Q3 | In Progress | | | | | | | | |
| **NOT STARTED** | | | | | | | | | | | |
| Key Control | Main Accounting | Q3 | | | | | | | | | Starting December |
| Key Control | Creditors | Q3 | | | | | | | | | Starting post SWO Exit 1 December. |
| Key Control | Debtors | Q3 | | | | | | | | | Starting post SWO Exit 1 December. |
| ICT | Mobile Working *(Mobile Devices - end to end)* | Q3 | | | | | | | | | |
| Key Control | Payroll | Q4 | | | | | | | | | Deferred to Quarter 4 at client request. |

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| Audit Type | Audit Area | Quarter | Status | Opinion | No of Rec | 1 = Minor ⟷ 5 = Major Recommendation | | | | | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1 | 2 | 3 | 4 | 5 | |
| Governance, Fraud and Corruption | Transformational Programme | Q4 | | | | | | | | | |
| Key Control | Housing Rents | Q4 | | | | | | | | | |
| Governance, Fraud and Corruption | Information/Data Security/Data Protection | Q4 | | | | | | | | | |
| Operational Audit | Housing - Responsive Maintenance | Q4 | | | | | | | | | |
| Operational Audit | Supported Housing (both Extra Care and Sheltered) | Q4 | | | | | | | | | |
| Contingency | Unallocated (Residual from DLO work) | Q4 | | | | | | | | | |
| **DROPPED** | | | | | | | | | | | |
| Governance, Fraud and Corruption | DLO Transformation / Relocation Programme | Q4 | | | | | | | | | Replaced by Building Control Partnership work |

## 2015-16 Audits

| Audit Type | Audit Area | Quarter | Status | Opinion | No of Rec | 1 | 2 | 3 | 4 | 5 | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Operational Audit | Homelessness | Q4 | Final | Reasonable | 8 | 0 | 1 | 7 | 0 | 0 | |

**Summary of Audit Assignments Undertaken since the September 2016 Update**

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

**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.**

➡ 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 June. 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.

**Imprest – Partial Assurance**

Discrepancies were identified with two Imprest accounts whilst performing cash counts and we were unable to verify whether these were isolated incidents since no regular reconciliations are completed, and no records are maintained of losses or surplus funds.

Weaknesses were also identified at these sites with regards to cash security with access to the petty cash tin key not adequately restricted. Purchases made from petty cash accounts were, on the whole, appropriate for the account but alternative methods of payment could be explored for some purchases; e.g. biscuits purchased for committee meetings; building supplies and workwear.

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

**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

In addition, some local procedures are in place for the approval of purchases and reimbursement from Finance; however, these are not consistently applied across all the services with Imprest accounts. These are also not in line with the petty cash controls within the Council's Constitution.

Whilst these weaknesses highlight some poor administrative procedures over the control of petty cash accounts, this does not amount to a material impact on the Authority in terms of risk.

The one high priority level four recommendation made is detailed below. A further four priority three recommendations were made in this review. All recommendations have been accepted and appropriate action is being taken.

**Imprest - Priority 4 Recommendations**

| Weaknesses Found | Risk Identified | Recommendation Action | Managers Agreed Action | Date of Action | Resp. Officer |
|---|---|---|---|---|---|
| A cash loss was identified for two of the petty cash accounts tested. One account had numerous losses over the last 12 months, although these are very low in value. | Council funds are lost or misappropriated. | I recommend that the Finance Manager ensures that periodic cash counts are carried out for petty cash accounts. This is to ensure that any discrepancies are picked up and can be dealt with in a timely and appropriate manner. | We have been in discussions with the Crematorium staff to ensure checks are put in place. We also have appointed a new Principal Finance Officer who will be responsible for the Cashiers function which will include petty cash. We will discuss the implementation of spot checks. | Dec 2016 | Finance Manager/Cemeteries and Crematorium Manager |

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

**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.**

ICT Audits

ICT Reviews provide assurance that the main IT systems and infrastructure comply with industry best practice. As with Operational Audits an opinion is given.

**User and Access Management – Partial Assurance**

This was a joint review across TDBC and WSC. The objective of this audit was to ensure physical and logical (IT Controls) access to the Council assets are appropriately managed in accordance with the business requirements.

There was one significant finding that related to TDBC in that there are no formal procedures relating to the creation and authorisation of a proximity pass for TDBC or WSC to obtain access to Council offices. Cards could be created by simply turning up and requesting a card or through email request.

The remaining six recommendations are presented as medium priority. Partial assurance audits at both authorities are historically followed up within six months of completion, so it is recommended that a follow up review be completed in early 2017-18.

The one high priority level four recommendation made is detailed below together with the agreed management action and timeframe for implementation of the recommendation.

**User and Access Management - Priority 4 recommendation.**

| Weaknesses Found | Risk Identified | Recommendation Action | Managers Agreed Action | Date of Action | Resp. Officer |
|---|---|---|---|---|---|
| There are no standard forms to request a proximity pass. Cards could be created by simply turning up and requesting a card or through email request. | There is an increased risk that, in the absence of appropriate formal request and authorisation that cards can be produced fraudulently and access exploited. | The Assistant Director establishes a formal procedure relating to the request and issuing of a proximity pass which includes authorisation from an agreed list of signatories. This list of signatories will need to be provided to Facilities Management to ensure that authorisation procedures are followed. | Agreed | 31 March 2017 | Facilities Manager |

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