

Taunton Deane Borough Council

Corporate Governance Committee – 20 March 2017

SWAP Internal Audit – Internal Audit Plan 2017/18 & Audit Charter

This matter is the responsibility of Executive Councillor Richard Parrish

Report Author: Alastair Woodland, Assistant Director, SWAP

1 Executive Summary

- 1.1 This report introduces the Internal Audit Plan for 2017/18 and also incorporates an 'Internal Audit Charter' which sets out the operational relationship between TDBC and the South West Audit Partnership (SWAP).
- 1.2 This is a flexible plan that may be amended during the year to deal with shifts in priorities or new and emerging risks. The following plan has the support of the Section 151 Officer.

2 Recommendations

- 2.1 The Corporate Governance Committee is requested to approve the Internal Audit Plan for 2017/18.
- 2.2 The Corporate Governance Committee is requested to approve the Internal Audit Charter.

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

Likelihood	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
			Impact				

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

Internal Audit Plan 2017-18

- 4.1 The Internal Audit service for Taunton Deane Borough Council is delivered by South West Audit Partnership (SWAP).
- 4.2 Taunton Deane Borough Council's audit plan for 2017-18 is based on 340 days and a further 10 days carried over from the Transformation Programme work in 2016-17 that provides a plan total of 350 days.
- 4.3 The internal audit plan for 2017/18 is set out in the attached report from SWAP. I am satisfied that this plan is focussed on key risks areas, and will help me provide TDBC with assurance on internal controls.
- 4.4 This has been discussed and supported by the Councils Joint Management Team and is now shared with Members for approval.

Internal Audit Charter

- 4.5 The internal audit service provided by the South West Audit Partnership (SWAP), works to a Charter that defines its roles and responsibilities and the roles and responsibilities of the Borough's managers as they relate to internal audit. Best practice in corporate governance requires that the Charter be reviewed and approved annually by the Corporate Governance Committee.
- 4.6 The Charter was last reviewed by the Corporate Governance Committee at their meeting on 21st March 2016.

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, to ensure objectives are achieved.

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 Quarterly
 Twice-yearly Annually

List of Appendices (delete if not applicable)

Appendix A	SWAP Internal Audit Plan and Charter 2017/18
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Taunton Deane Borough Council

Report of Internal Audit Activity

Internal Audit Plan 2017-18 & Audit Charter

Contents

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Internal Audit Plan 2017/2018

The role of the internal auditor is to provide *independent, objective assurance* to management and members that key risks are being managed effectively.



Purpose of this report

The purpose of this report is for members to approve the Internal Audit Charter and the Annual Internal Audit Plan for 2017-18.



Role of Internal Audit

The role of the internal auditor is to provide independent, objective assurance to management that key risks are being managed effectively. To do this, the internal auditor will evaluate the quality of risk management processes, systems of internal control and corporate governance frameworks, across all parts of an organisation, and provide an opinion on the effectiveness of these arrangements.

By reporting to senior management that important risks have been evaluated, and highlighting where improvements are necessary, the internal auditor helps senior management to demonstrate that they are managing the organisation effectively on behalf of their stakeholders. Hence, internal auditors, along with senior management and the external auditors are a critical part of the governance arrangements of an organisation, with the work undertaken significantly contributing to the statutory Annual Governance Statement (AGS).

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities must “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

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. These standards define the way in which the Internal Audit Service should be established and undertakes its functions.

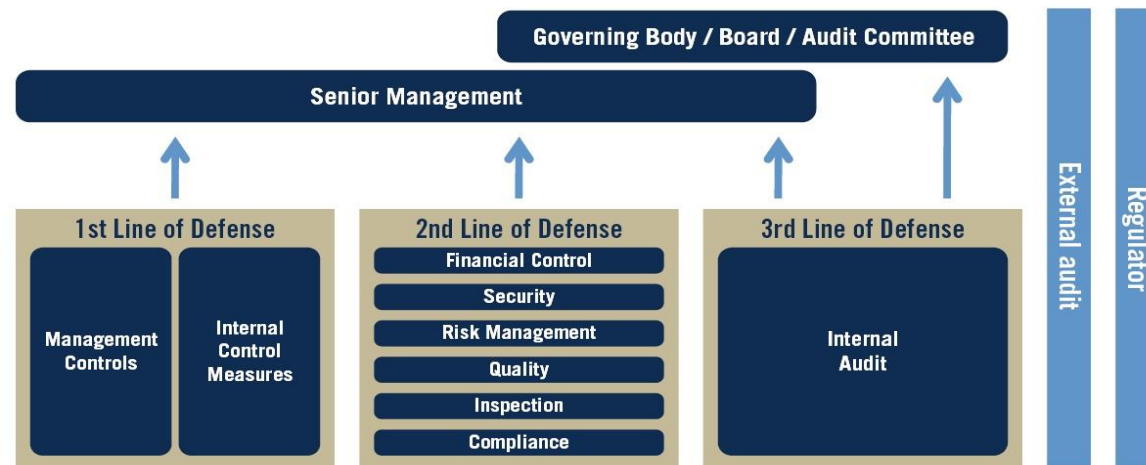
The role of the internal auditor is to provide *independent, objective assurance* to management and members that key risks are being managed effectively.



Role of Internal Audit Continued

The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

Source: IIA Position Paper January 2013

The role of the internal auditor is to provide *independent, objective assurance* to management and members that key risks are being managed effectively.



Role of Internal Audit Continued

It is the role of management to establish effective systems of governance, risk management and Internal Controls to:

- safeguard the Council's resources and prevent fraud;
- ensure the completeness and reliability of records;
- monitor adherence to laws, regulations, policies and procedures;
- promote operational efficiency demonstrate the achievement of value for money; and
- manage risk

It is the responsibility of management to establish controls needed to confirm that their systems are working effectively, that all information is accurate, and the risk of fraud and error is minimised.

Internal audit's role is to provide assurance that management are undertaking the appropriate checks over their systems to confirm that they are working effectively. It is not the role of internal audit to re-perform management's checks or to undertake such checking on management's behalf. In order to safeguard Internal Audits independence, Internal Audit does not have any operational responsibilities and is not responsible for any of the decision making or policy setting within the Council.

An Internal Audit Charter is a formal document that defines internal audit's purpose, authority, responsibility and position within an organisation.



Internal Audit Charter

An Internal Audit Charter is a formal document that defines internal audit's purpose, authority, responsibility and position within an organisation.

The Internal Audit Charter describes how internal audit will provide value to the organisation, the nature of the services it will provide and the specific focus or emphasis required of internal audit to help the organisation achieve its objectives. Having an Internal Audit Charter also establishes the internal audit activity's position within the organisation, including reporting lines, authorising access to records, personnel, and physical properties relevant to the performance of engagements; also defining the scope of internal audit activities. A copy of the current Internal Audit Charter is attached at **Appendix B**.

It is the role of the Audit Committee to review and approve the 'Internal Audit Charter' on an Annual basis. The current 'Internal Audit Charter' was last reviewed and approved by this Committee at its meeting on 21st March 2016. The only change to the Internal Audit Charter is the additional reference to the 'Accounts & Audit (England) Regulations 2015 under the heading of 'Role of Internal Audit'.

Internal Audit Plan 2017/2018

Our audit activity is split between:



Internal Audit Plan

- Key Control Audit
- Governance, Fraud & Corruption Audit
- IT Audit
- Operational Audits
- Follow up Audits
- Non-Opinion/Other Reviews

The plan is presented in **Appendix A** to this report and represents the internal audit activity for the 2017/18 financial year.

Our Internal Audit Plan has been developed to take into account management's assessment of risk via the Corporate Risk Register as well as risks identified in the Service Risks Registers. In addition to this, we have held planning meetings with all Assistant Directors to gauge areas where our time would be best spent to provide them required assurance.

We also use our own risk assessment against each activity assessing reputational impact, change factor, financial risk, legal/statute, strategic priorities and health & safety risk. This allows us to prioritise possible areas to be included in the plan on the basis of risk.

The audit plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent. Any changes to the agreed plan will only be made through a formal process involving the Director of Operations (Section 151 Officer) and reported to this Committee.

It should be noted that plan days are only indicative for planning our resources. At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. Any changes to individual plan items, in terms of days, are managed within the annual payment made by the Council. The plan is pulled together with a view to providing assurance to both Officers and Members that current risks faced by the Authority are adequately controlled and managed.

Internal Audit Plan 2017/2018

Our audit activity is split between:



Internal Audit Plan Continued

- **Key Control Audit**
- **Governance, Fraud & Corruption Audit**
- **IT Audit**
- **Operational Audits**
- **Follow up Audits**
- **Non-Opinion/Other Reviews**

The audit plan is notionally broken down across various audit categories; the following summarises each:

Key Control Audits – focus primarily on key risks relating to the Council’s major financial systems. The External Auditors have emphasised for this year that while they do not place reliance on the work of Internal Audit, they will continue to take assurance from it. The scope of some of these reviews will therefore change in emphasis to include controls that haven’t been included in previous years.

Governance, Fraud & Corruption Audits – The focus of the Governance reviews is primarily the key risks relating to cross cutting areas that are controlled and/or impact at a corporate rather than service 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 we will be conducting most of these reviews at all our Partner Sites.

Fraud will continue to be a focal point of our work programmes in all areas, but to support the Council we have a specialist team that are able to respond and carry out ad-hoc investigations if the need should arise.

IT Audits – are completed to provide the Authority with assurance with regards to their compliance with industry best practice. Some of these audits have come from previous year assessments and our awareness of current IT risks.

Operational Audits – are detailed evaluation of service or functions 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.

Our audit activity is split between:

- **Key Control Audit**
- **Governance, Fraud & Corruption Audit**
- **IT Audit**
- **Operational Audits**
- **Follow up Audits**
- **Non-Opinion/Other Reviews**



Internal Audit Plan Continued

Follow Up Audits – Where an audit receives a Partial or No Assurance level, SWAP are required to carry out a follow up review to provide assurance that identified weaknesses have been addressed and risks mitigated. Known follow ups from work undertaken in the 2016-17 plan have been built in. A contingency has also been built into the plan so that, should any early reviews be awarded this level of assurance, they can be followed up in a timely manner.

Non-Opinion Reviews – are undertaken at the specific request of management, where they may have some concerns or are looking for advice on a particular subject matter. Such reviews are not normally afforded an audit opinion.

Taunton Deane Internal Audit Plan 2017-18	
Audit Type and Area	Number of Days (350)
Key Financial Control	
Main Accounting	20
Creditors	17
Debtors	14
Discretionary Payments - Housing	10
Payroll	15
System Parameter testing Civica	2
Governance, Fraud & Corruption	
Post Implementation Review - Finance System, HR & Payroll	15
Business Rate Avoidance/Fraud	10
Transformation	10
New premises - project management	15
Compliance with IR35	3
Culture & Ethics Survey	2
Procurement Analysis	12
Organised Crime - Compliance Checklist	5
Use of Consultants	14
IT Audit	
New TDBC Website post implementation	12
Disaster Recovery	12
Cyber Security	12
Operational Audits	
Impact of Universal Credit	14
Grants - DFG & Other	12
Parking maintenance	8
DLO Sub Contractors	14
Trade materials	14
Business Development - Project & Programme Management	12
Development Control	10
Housing Compliance – Gas Servicing	15
Follow Up Audits	
Crematorium	6
Building Control	2
User Access Management	3
Management Time	
Follow up Contingency	8
Corporate Advice	8
Committee Reporting & Attendance	12
Planning & Client Liaison	12

Delivering Audit Excellence



Internal Audit Charter

Taunton Deane Borough Council

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Last revision author	A R Woodland
Date for next review	March 2018

INTERNAL AUDIT CHARTER

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Taunton Deane Borough Council, and to outline the scope of internal audit work.

Approval

This Charter was approved by the Corporate Governance Committee on 25th September 2006 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Corporate Governance Committee¹ on 21st March 2016.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Director - Operations (Section 151 Officer) in consultation with the Chief Executive of SWAP.

Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: *"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."*

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management and of Internal Audit

Management²

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council's Chief Executive and the Corporate Governance Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

¹ The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Corporate Governance Committee in this instance represents the Board.

² In this instance Management refers to the Joint Management Team.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). SWAP has been independently assessed and found to be in Conformance with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for Taunton Deane Borough Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive for SWAP and the Group Audit Manager also report to the Strategic Director, as Section 151 Officer, and reports to the Corporate Governance Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Taunton Deane Borough Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
 - evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
 - appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
 - assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
 - reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether Taunton Deane Borough Council is in compliance;
 - reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
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- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy.
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditor's independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Corporate Governance Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least two times a year to the Corporate Governance Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Corporate Governance Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Director - Operations (Section 151 Officer) and to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Corporate Governance Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and SWAP Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Corporate Governance Committee, the Council's Chief Executive Officer or the External Audit Manager.

Revised March 2017
