Taunton Deane Borough Council

CORPORATE GOVERNANCE COMMITTEE – 27 JUNE 2011

INTERNAL AUDIT PLAN 2010/11– ANNUAL 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 outturn 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 March 2011.

2. Background

To provide members with the outturn position for the Internal Audit Plan 2010/11.

3. Audits Completed and Progress against Plan

Please see attached report.

4. Finance Comments

N/a

5. Legal Comments

N/a

6. 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.

7. Environmental implications

N/a

8. 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

Annual Report and Opinion 2010-2011

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

Contents

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SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors and the CIPFA Code of Practice for Internal Audit in England and Wales.

Annual Opinion:

The Group Audit Manager is required to provide an annual opinion report to support the Annual Governance Statement.

Purpose of Report and Recommendation

The Accounts and Audit Regulations (England) 2011 requires public authorities to publish an Annual Governance Statement (AGS).

The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.

Background

The Internal Audit service for Taunton Deane Borough Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors. The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the Unit is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of SWAP for the year 2010_11.

Audits Completed—Operational

Operational Audits—are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested; risks are assessed against the risk appetite agreed with the SWAP Management Board. Where weaknesses or areas for improvement are identified, actions are agreed with management, prioritised and target dated. Based on the findings of each review, an overall Control Assurance is offered.

Operational Audits completed by SWAP for the year to March 2011, together with the Control Assurance offered, are summarised in the following table:

Audit Area	Audit Opinion
Building Control	▲★★☆ **Reasonable**
Customer Services	▲★★☆ **Reasonable**
Creditors	▲★★★ **Partial**
Debtors	▲★★★ **Partial**
Main Accounting	▲★★☆ **Reasonable**
Housing Benefit Fraud	▲★★☆ **Reasonable**
Income (Deane Helpline)	▲★★☆ **Reasonable**
Section 106 Agreements	▲★★☆ **Reasonable**
Partnership Arrangements	▲★★★ **Partial**

These reviews resulted in 89 recommendations for improvement to Internal Controls.

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Summary of Work 2010/11

Continued.....

Audits Completed — Information Systems

Information Systems—IS audits are completed to provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given. The following IS audit was completed for 2010/11:

Audit Area	Audit Opinion
Corporate Back Up Routines	▲ ★ ★ ★ **Reasonable**

Summary of Work 2010/11

Continued…..

Audits Completed—Key Controls

Key Control Audits — The Key Control Audit process focuses primarily on key risks relating to the Council's major financial systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance. The findings from these reviews are considered by the External Auditors when they assess the Council's Financial Statements at year end.

Key Control Audits completed by SWAP for the year to March 2011, together with the Control Assurance offered, are summarised in the following table:

Audit Area	Opinion
Capital Accounting	▲ ★ ★ ☆ Reasonable
Council Tax & NNDR	▲ ★ ★ ★ **Partial**
Housing Benefits	▲ ★ ★ ★ Comprehensive
Housing Rents	▲ ★ ★ ★ **Partial**
Payroll	▲ ★ ★ ☆ Reasonable
Treasury Management	▲ ★ ★ ☆ Reasonable

In all there were 35 actions resulting from these reviews which have been assigned to responsible officers and target dates for completion have been agreed. It is likely that the External Auditors will focus on these findings when they carry out their work to sign off the Council's Accounts.

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Audits Completed — Governance and Fraud

Governance and Fraud Reviews — These reviews focus on the key controls in the areas of Governance or activities where it is perceived there is greater opportunity for Fraud or Corruption. There were 12 audits of this type included within the 2010/2011 Internal Audit Plan.

Governance and Fraud Audits completed by SWAP for the year to March 2011, together with the Control Assurance offered, are summarised in the following table:

Audit Area	Audit Opinion
Data Quality Performance Indicators	▲★★★ **Comprehensive**
Procurement (Category Management)	▲★★★ **Partial**
Risk Management (Risk Registers including major projects)	▲★★☆ **Reasonable**
Equalities and Diversity Impact Assessments	▲★★★ **Partial**
Health and Safety	▲★★★ **Partial**
Performance NI 179 Efficiency Statements	Non Opinion
Performance NI 188 Use of Natural Resources	▲★★★ **Comprehensive**
Business Continuity (Major Partnerships and Contractors)	▲★★☆ **Reasonable**
Gifts and Hospitality – Register of Interests	▲★★☆ **Reasonable**
Gifts and Hospitality– Register of Interests (Members)	▲★★☆ **Reasonable**
Fees and Charges	▲★★☆ **Reasonable**
Income Collection Analytical Review (including budgets and methods of payment)	▲★★☆ **Reasonable**

In all there were 48 actions resulting from these reviews which have been assigned to responsible officers and target dates for completion have been agreed.

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Performance:

The Head of Internal Audit Partnership reports performance on a regular basis to the SWAP Management and Partnership Boards.

SWAP Performance

The beginning of last year saw the introduction of a second County Council into the South West Audit Partnership. SWAP now covers the two County Councils of Somerset and Dorset, the five Somerset Districts, two District Council's in Dorset, one District in Devon and one District Council in Gloucester. In addition to these 11 key partners, SWAP also provides an internal audit service to a number of subsidiary bodies.

With regards to the 2010/11 Annual Plan for Taunton Deane Borough Council, there were a total of reviews planned for the year. At client request 5 audits were removed — 4 Operational Audits and 1 IS Review. However 3 Special Reviews were carried out at the request of Management covering Licensing Cash Handling, Parking Services stock and DLO Due Diligence.

All audit work has been completed for the year. Final reports have been issued on all but four of these audits.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. As part of the Balanced Scorecard presented to the SWAP Boards, a target of 85% is set where 75% would represent good. The latest Scorecard for the Partnership shows the current average feedback score to be 81%. For Taunton Deane Borough Council the average feedback score for all audits (for which questionnaires were returned) was 74%

SWAP — South West Audit Partnership

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Annual Opinion:

The Group Audit Manager is required to provide an annual opinion report to support the Annual Governance *Statement*.

Group Audit Manager's Opinion

As a result of the work undertaken by SWAP during 2010/11 I feel able to offer management a 'reasonable' level of assurance in relation to the internal control environment but this is based on a limited scope for the year.

Out of a total of 28 audits where the report included an audit opinion 9 were assessed as partial, 16 assessed as reasonable and 3 as comprehensive. Of those assessed as partial 3 were in respect of Governance audits and 3 for operational audits and 3 for key control audits. (For a summary of Control Assurance Definitions, Categorisation of Recommendations and Definitions of Risk Levels, please refer to Appendix 'A').

There have been issues associated with the embedding of SAP which have continued from last year (highlighted in our report last year). However management have continued with progress addressing the key issues and additional training has been provided where necessary to ensure a greater consistency of practice.   Particularly in the payment of suppliers, sales invoicing and debt management considerable attention has been focussed on the more effective operation of the key process controls. The audits completed for 2010/11 for creditors and debtors were assessed as partial so we have included further follow up audit work in quarter 1 of 2011/2 in order to support the key control audit work to be done on these areas in quarter 3.

Management have recognised the need to monitor completion of audit recommendations. Regular reports will be submitted to this Committee for any recommendations scoring a level 4 or 5 . A summary of significant risks for audit work completed by SWAP since the last report to the Governance Committee has been attached as Appendix 'B'.

Annual Opinion:

Continued…...

Group Audit Manager's Opinion - Continued

It is not possible for the Annual Internal Audit Plan to cover and provide assurance on all areas of the Council's business. In order to seek assurance, the Section 151 Officer seeks the views of Senior Managers as to the adequacy of the internal control environment for their service areas.

Since appointment as internal auditors for Taunton Deane Borough Council SWAP have found the Senior Management to be supportive of SWAP findings and responsive to the recommendations made.

I have considered the balance of audit work and outcomes against this environment and feel able to offer 'Reasonable Assurance' that the systems of internal controls are in place and working well. I am confident that where weaknesses have been identified, management have confirmed that they have or will take the necessary action to address these findings.

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Audit Framework Definitions

Control Assurance Definitions

Comprehensive	▲ ★ ★ ★	I am able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Schedule of Key Actions from 2010/11 Internal Audit Work completed by SWAP since March Committee report

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
April 2011	Council Tax/NNDR	It was evident that there is no formal reconciliation being carried out to ensure that refunds are being accurately reflected on the general ledger (SAP).	Refunds made may not be accurately reflected in the general ledger (SAP).	I recommend the Financial Services Manager ensures that the recommendations made by External Audit for a regular reconciliation of refunds is acted upon promptly.	Agreed	June 2011
June 2011	Housing Rents	There is no reconciliation of refunds.	Refunds made may not be accurately reflected in the general ledger (SAP).	I recommend that the Housing Accountant ensures that the refunds control totals in the Rent System and the General Ledger are reconciled quarterly.	Agreed	30 June 2011
June 2011	Housing Rents	There is no checking of input to the Rent System.	Data input to the Rents system may not be accurate or complete.	I recommend that the Rent, Recovery and Void Manager should introduce a robust system of checking input to the Rents System. Results should be retained and reviewed to identify training needs.	Agreed	30 September 2011
June 2011	Housing Rents	There has been no recovery action on former tenant arrears.	It may not be possible to collect older debts which may then need to be written off.	I recommend that the Rent, Recovery and Void Manager should set a target date for recovery action to be re-started on these debts and ensure this is met.	Agreed	Immediate

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
June 2011	Section 106 Agreements	A central database system is available as part of an existing software package, but is not used to monitor S106 agreements. This is currently done manually by each individual section.	If staff continue to monitor areas of S106 agreements separately there is the risk that work could be duplicated or neglected in the absence of key personnel.	I recommend that the Section 151 Officer ensures that training is delivered on the Planning obligations module of Accolaid to all key officers involved in the monitoring of S106 agreements.	There is a need to make sure that existing software is 'fit for purpose' and fulfils all the needs of each individual section. BDG to discuss with Section 151 Officer and Planning Section.	3 months
June 2011	Section 106 Agreements	Payment in lieu of play facilities has been incorrectly coded and spent as a commuted sum.	There is a risk that without central monitoring of S106 payments further funds could be classified incorrectly and either remain unspent or be spent incorrectly. There is also a risk that if the funds identified during testing are not spent for the correct purpose then the developer may expect the money returned.	I recommend the Section 151 Officer ensures that all S106 payments including commuted sums are recorded and monitored centrally. The Finance team should provide regular monitoring reports to the various departments involved in S106 payments regarding payments received by developers.	The occurrence noted was a mistake and will be rectified by enhancing play equipment on the adjoining area. In future when the initial sums are calculated by Parks they will be broken down in the letter that is sent to Legal and a copy forwarded to Finance so that the correct allocation is recorded on their master spreadsheet which will feed into the one operated by the working group.	Immediately
June 2011	Section 106 Agreements	There is no nominated Officer in place to monitor completion or implementation of S106 agreements.	There is a risk that if there is no central monitoring of S106 agreements that agreements may not be recorded, trigger points may be neglected, and funds may not be chased if not received and general obligations of the developers will not be met.	I recommend that the Section 151 Officer ensures that an Officer is given responsibility for monitoring S106 agreements from creation through to implementation and collection of funds.		

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
June 2011	Section 106 Agreements	No reports were identified as having been made to Full Council, Corporate Scrutiny, Corporate Governance Committee or the Community Strategy Committee within 2010-11.	There is a risk that management and Councillors are not aware of S106 agreements in place or monitoring them adequately to ensure that funds are being spent in accordance with the agreement and community needs.	I recommend that the Section 151 Officer ensures that management reports are produced and reported to the relevant committee regularly.	Discussion to be held with S151 Officer, Legal and Democratic Services Manager and BDG as to what the correct procedure should be.	Within 3 months

TDBC AUDIT PLAN 2010/11

1 = Minor ⟶ 5 = Major

Directorate/Service	Audit Area	Quarter	Status	Opinion	No. of recs	Recommendations				
						1	2	3	4	5
Operational Audits	Building Control	1	Final Report	Reasonable	8	0	0	6	2	0
Operational Audits	Property Services	1	Dropped							
Operational Audits	Customer Services	1	Final Report	Reasonable	5	0	0	3	2	0
Operational Audits	Choice Based Lettings	1	Dropped							
ICT - Policy	SWAP Information Security Group - SISG	1	Completed	Non Opinion						
ICT - Security	Threat Protection	1	Dropped							
Governance, Fraud & Corruption	Data Quality - Performance Indicators	1	Final Report	Comprehensive	0	0	0	0	0	0
Governance, Fraud & Corruption	Procurement (Category Management)	1	Draft Report	Partial	11	0	0	5	6	0
Governance, Fraud & Corruption	Risk Management (Risk Registers including Major Projects)	1	Final Report	Reasonable	2	0	0	2	0	0
Client Support	Special Review - DLO Due Diligence	1	Draft Report	Non Opinion						
Operational Audits	Creditors	2	Final Report	Partial	14	0	0	3	8	3
Operational Audits	Debtors	2	Final Report	Partial	17	0	4	13	0	0
Operational Audits	Main Accounting	2	Final Report	Reasonable	14	0	5	9	0	0
ICT - Security	Corporate back up routines	2	Final Report	Reasonable	1	0	0	1	0	0
Governance, Fraud & Corruption	Equalities and Diversity - Impact Assessments	2	Final Report	Partial	5	0	0	5	0	0
Governance, Fraud & Corruption	Health and Safety	2	Final Report	Partial	7	0	0	7	0	0
Governance, Fraud & Corruption	Performance - NI 179 Efficiency Statements	2	Completed	Non Opinion						
Governance, Fraud & Corruption	Performance - NI 188 Use of Natural Resources	2	Final Report	Comprehensive	0	0	0	0	0	0
Client Support	Special Review - Parking Services Stock	2	Final Report	Non Opinion	0	0	0	0	0	0
Client Support	Special Review - Licensing Cash Handling	2	Final Report	Non Opinion	16	0	2	10	3	1
Operational Audits	Housing Benefits Fraud	3	Final Report	Reasonable	4	0	3	1	0	0
Operational Audits	Review of Core Council Arrangements	3	Dropped							
Client Support	Special Review-Whistleblowing Policy	4	Completed	Non Opinion						
Key Control Audits	Capital Accounting	3	Final Report	Reasonable	4	0	4	0	0	0
Key Control Audits	Council Tax/NNDR	3	Final Report	Partial	8	0	1	6	1	0
Key Control Audits	Housing Benefits	3	Final Report	Comprehensive	3	0	3	0	0	0
Key Control Audits	Housing Rents	3	Final Report	Partial	11	0	1	7	3	0
Key Control Audits	Payroll	3	Final Report	Reasonable	5	0	3	1	1	0
Key Control Audits	Treasury Management	3	Final Report	Reasonable	4	0	2	2	0	0
Operational Audits	Legal Services	4	Dropped							

Category	Title		Report Status	Assurance						
Operational Audits	(Income) Deane Helpline	4	Final Report	Partial	5	0	0	5	0	0
Operational Audits	Partnership Arrangements	4	Draft Report	Partial	12	0	1	7	4	0
Operational Audits	Section 106 Agreements	4	Final Report	Partial	10	0	1	5	4	0
Operational Audits	Strategic Housing	4	Dropped							
Governance, Fraud & Corruption	Business Continuity (Major Partnerships and Contractors)	4	Draft Report							
Governance, Fraud & Corruption	Gifts & Hospitality - Register of Interests - Members	4	Final Report	Reasonable	7	0	3	4	0	0
Governance, Fraud & Corruption	Gifts and Hospitality - Register of Interests	4	Final Report	Reasonable	8	0	4	4	0	0
Governance, Fraud & Corruption	Fees and Charges	4	Final Report	Reasonable	3	1	2	0	0	0
Governance, Fraud & Corruption	Income Collection (Analytical Review including Budgets and Methods of Payment)	4	Final Report	Reasonable	5	0	2	3	0	0

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