

Taunton Deane Borough Council

Corporate Governance Committee – 10 December 2012

Internal Audit Plan Progress 2012-2013

Report of the Group Audit Manager – Chris Gunn

(This matter is the responsibility of Executive Councillor John Williams, the Leader of the Council).

1. Executive Summary

The Internal Audit function plays a central role in corporate governance by providing assurance to the Corporate Governance Committee, looking over financial controls and checking on the probity of the organisation.

The 2012-13 Annual Audit Plan is on track to provide independent and objective assurance on TDBC's Internal Control Environment. This work will support the Annual Governance Statement.

2. Background

This report summarises the work of the Council's Internal Audit Service and provides:

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in September (**Appendix B**).
- 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 (**Appendix A**).

Members will note that where a partial assurance has been awarded, Internal Audit will follow up on the agreed management responses to provide assurance that risk exposure has been reduced.

3. Full details of the Report

Please refer to the attached SWAP Progress Report.

4. Finance Comments

There are no specific finance issues relating to this report.

5. Legal Comments

There are no specific legal issues relating to this report.

6. Links to Corporate Aims

Delivery of the corporate objectives requires strong internal control. The attached report provides a summary of the audit work carried out to date this year by the Council's internal auditors, South West Audit Partnership.

7. Environmental Implications

There are no direct implications from this report.

8. Community Safety Implications (if appropriate, such as measures to combat anti-social behaviour)

There are no direct implications from this report.

9. Equalities Impact

There are no direct implications from this report.

10. Risk Management

Any large organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. TDBC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement. The most significant findings since the last committee report are documented in **Appendix B**.

11. Partnership Implications

There are no direct implications from this report.

12. Recommendations

Members are asked to note progress made in delivery of the 2012/13 internal audit plan and significant findings.

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Taunton Deane Borough Council

Report of Internal Audit Activity
December Update 2012-13

Contents

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Summary:

Role of Internal Audit Overview of Internal Audit Activity	Page 1
Internal Audit Work Programme 2011/12	Page 2
Future Planned Work & Progress	Page 3
Summary of Significant Findings	Page 4

Appendices

Appendix A - 2012-13 Annual Plan Progress	Page 5
Appendix B – High priority Findings & Recommendations	Page 8
Appendix C – Audit Framework Definitions	Page 10

Our audit activity is split between:

- Operational Audit
- Key Control Audit
- Governance, Fraud & Corruption Audit
- IT Audit
- Special Reviews

See Appendix A for individual audits

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 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 March 2012 meeting.

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 Fraud and Governance Reviews
- Annual Review of Key Financial System Controls
- IT Audit Reviews
- Other Special or Unplanned Reviews

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 this Committee at its meeting in March 2012.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk. Key Control Audits are undertaken in quarter three of each year and these are planned in conjunction with the Council's External Auditor to assist in their assessment of the Council's financial control environment. This reduces the overall cost of audit to the Council.

Members are asked to comment on and note the content of this report.

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 Programme

The schedule provided at [Appendix A](#) contains a list of all audits as agreed in the Annual Audit Plan 2012/13. 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. To further assist with this assurance all 4 & 5 priority recommendations will be followed up by internal audit to confirm the weakness has been addressed.

Further, should an audit review identify any significant corporate risk as ‘very high’, as described in [Appendix C](#), these will also be brought to the attention of the Committee.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Future Planned Work

The audit plan for 2012-13 is detailed in [Appendix A](#). As reported at the last committee two additional reviews have been agreed with the Council's Section 151 Officer. At the beginning of October we started a review on the Acolaide System in light of the significant control weaknesses identified at a partner Authority. This review is focusing on risk exposure due to the known access weakness and what mitigating controls are or need to be in place.

The second additional review scheduled for quarter 4 will look at the Project Management Arrangements on the Crematorium Mercury Filtration Project. To accommodate this additional review, the follow-up audits on Project Taunton and the ICT Strategy will now be deferred to quarter 1 of the 2013-14 audit plan.

Progress to date

A list of all audits planned for 2012-13 and their status as at the 28 November are detailed in [Appendix A](#). There are a total of 35 reviews covering quarters one, two and three. 23 of these reviews are at a reporting status, 9 are in progress and 3 are yet to commence. It is anticipated that the majority of the 9 reviews in progress will be at a report status by the end of quarter 3. However, there are a couple of variations to the planned delivery timings.

As previously reported there was a delay in obtaining the necessary data from SAP for the Creditors Fraud Audit pushing this audit in to quarter 2. The same data is being utilised on the Contract Fraud Audit and Procurement Rules Audit. As all three audits involve SWO Strategic Procurement they were allocated to the same group of auditors. The delay in starting the Creditors Fraud Audit has had a knock effect on the Contract Fraud Audit and Procurement Rules Audit.

Internal Audit will use the findings to formalise an opinion on how effective the internal control, risk management and governance arrangements are. This opinion is used to support the Annual Governance Statement.

2012-13 Progress Continued

One other change to planned timing is the Software Licensing Audit which was planned for quarter 3. The key contact in SWO has been unavailable and it has been agreed this review will be deferred to quarter 4.

So in summary, at the end of November 80% of the Taunton Deane Internal Audit Plan was in either progress or at report stage. Despite the partnership being hit by higher than normal levels of sickness and vacancies will feel confident we are on track to deliver 100% of the internal audit plan.

Summary of Significant Findings

It is the role of Internal Audit to bring to the attention of the Corporate Governance Committee any significant corporate risks identified during our work. For each Operational Audit and Governance Audit we assess the agreed risks identified against an inherent risk score (if no controls existed), and then provide an Auditors Assessment once we have tested the mitigating Controls. Where the Inherent risk score is very high and after testing the mitigating controls the assessment remains very high, then these risks will be reported to this Committee. We are pleased to report that no significant corporate risks have been identified during our work.

In addition to reporting significant corporate risks we also bring to the attention of the Corporate Governance Committee a summary of the agreed actions relating to high priority (scored as a 4 or 5) service recommendations. [Appendix B](#) is a summary of the high priority recommendations made since the last Committee where reports have been finalised. Members are asked to note the findings and management actions.

Audit Plan Progress 2012-13 End of November 2012

APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major				
						Recommendation				
						1	2	3	4	5
Follow-up Audit	Contract Management	1	Final	Follow-up	4	0	0	1	1	2
Follow-up Audit	Threat from Fraud or Corruption (Policy Review)	1	Final	Follow-up	5	0	0	4	1	0
Special review	Project Taunton - Transaction Review	1	Final	Non-Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Fraud and Corruption - Creditors Fraud	1	Discussion Document							
Governance, Fraud & Corruption	Data Security Breaches	1	Discussion Document							
Governance, Fraud & Corruption	Delivery of Major Projects - Risk Management	1	Final	Reasonable	5	0	2	3	0	0
Governance, Fraud & Corruption	Business Continuity in times of change/reduction	1	Final	Partial	9	0	0	3	4	2
Governance, Fraud & Corruption	HR Policies - Absence Management	1	Final	Reasonable	3	0	1	2	0	0
Operational Audits	SAP Administration	1	Discussion Document							
Operational Audits	Development Control	1	Final	Reasonable	7	0	3	4	0	0
Operational Audits	Equalities Analysis Integration	1	Final	Partial	3	0	0	0	3	0
Follow-up Audit	Economic Development	2	Final	Follow-up	10	0	0	7	3	0
Follow-up Audit	Supporting People	2	Final	Follow-up	4	0	0	2	2	0
Governance, Fraud & Corruption	Fraud and Corruption - Contract Fraud	2	In Progress							

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ←————→ 5 = Major				
						Recommendation				
						1	2	3	4	5
Governance, Fraud & Corruption	Committee Reporting - Member Decisions	2	Draft	Reasonable	3	0	0	3	0	0
Governance, Fraud & Corruption	Procurement Rules	2	In Progress							
ICT Audits	Adherence to the new Information Security Policy including portable storage security	2	In Progress							
Operational Audits	Housing - Asset Management	2	Drafting							
Operational Audits	South West Private Sector Housing partnership	2	Final	Reasonable	8	0	0	8	0	0
Operational Audits	SWO Contract Monitoring	2	Draft	Reasonable	3	0	0	2	1	0
Operational Audits	Health & Safety Review	2	Discussion Document							
Key Control	Creditors	3	Drafting							
Key Control	Council Tax & NNDR	3	Draft	Substantial	1	0	0	1	0	0
Key Control	Debtors	3	Drafting							
Key Control	Housing Benefits	3	Drafting							
Key Control	Main Accounting	3	In Progress							
Key Control	Payroll	3	In Progress							
Key Control	Capital Accounting	3	In Progress							
Key Control	Housing Rents	3	Drafting							
Key Control	Treasury Management	3	In Progress							
Key Control	SAP Access	3	In Progress							
Governance, Fraud & Corruption	Treasury Management Strategy Review Cross Partnership	3								
ICT Audits	Software Licensing	3								
Operational Audits	Benefit Scheme Changes	3								

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ←————→ 5 = Major				
						Recommendation				
						1	2	3	4	5
Governance, Fraud & Corruption	Fraud and Corruption - Expense Claim Fraud	4								
Governance, Fraud & Corruption	Asset Management Planning	4								
ICT Audits	System Development Life cycle	4								
Operational Audits	Waste & Recycling (Contribution to SWP Plan)	4	N/A	N/A						
Operational Audits	Housing - Gas Servicing	4								
Follow-up Audit	Project Taunton Follow up work (Deferred to quarter 1 – replaced by Project Management Arrangements - Crematorium Mercury Filtration Project)	4	N/A	N/A						
Follow-up Audit	IT Strategy (Deferred to quarter 1 – replaced by Project Management Arrangements - Crematorium Mercury Filtration Project)	4	N/A	N/A						

Additional Reviews

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ←————→ 5 = Major				
						Recommendation				
						1	2	3	4	5
Special review	Acolaide	2	In Progress							
Special review	Project Management - Crematorium Mercury Filtration Project	4								

APPENDIX B

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
AUDIT: EQUALITIES ANALYSIS INTEGRATION					
There was a wide spectrum in Officers understanding of equality requirements. No refresher training is currently planned.	Decision makers and contractors are unaware of their responsibilities under equalities legislation.	I recommend that the Strategy and Performance Manager should ensure a refresher training course is provided for Senior Officers to increase awareness of the TDBC framework and expectations.	There are a number of steps we plan to take to help embed equality in day to day decision making, these being: <ul style="list-style-type: none"> • Raise awareness at CMT of this issue; • Increase awareness of the equality training that is available through SWO; • Make better use of the Leads Meetings to promote awareness and understanding. • Identify substandard EIAs and ensure training is targeted 	30 November 2012	Strategy & Performance Manager, and Lead Officer – Strategy and Performance
Equality analysis is not included on all reports, and an effective quality monitoring framework is not in place.	Irrelevant and insufficient evidence is used for equality analysis.	I recommend that the Strategy and Performance Manager should create an Internal Equalities Group with representation across each Theme to monitor compliance and adherence to the TDBC framework.	The Strategy and Performance Unit intend to provide monthly ' <i>equality surgeries</i> ' that managers can attend to ask questions and seek advice on specific areas of equality analysis. <p>In addition to this, the Equalities Group plans to provide additional training to Democratic services to assist them in monitoring the equality information that is produced for committee reports.</p>	March 2013	Lead Officer – Strategy and Performance & Strategy Officer

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
AUDIT: EQUALITIES ANALYSIS INTEGRATION					
			Use of Leads meetings should also assist in addressing this weakness.		
There was a lack of evidence to back up equality considerations undertaken during the decision/policy making process. It wasn't clear that equality analysis is used to help inform officer recommendations, but appears equalities is an afterthought in the decision making process.	Equality analysis is not used to inform decisions and policies contrary to statutory requirements.	See recommendations above.	One of our published equality objectives includes a commitment for services to undertake customer equality profiles every two years (due by 31/3/2014). This will provide a stronger baseline to evidence impact assessments	N/A	N/A
Monitoring of Equality Impacts is not fully embedded.	Actual impacts are different to those expected.	I recommend that the Strategy and Performance Manager should strengthen the equality monitoring framework to ensure equality impact action plans within service plans are viewed as 'live' plans and updated accordingly.	The scorecard performance monitoring framework is being strengthened, which will include monitoring progress on Equality actions. One to Ones between Directors and Theme Managers should identify where actions are not being followed through.	30 November 2012	Strategy & Performance Manager

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.
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.