Taunton Deane Borough Council

Corporate Governance Committee – 11 March 2013

Internal Audit Plan Progress 2012-2013

Report of the Group Audit Manager – Ian Baker
(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. **Detailed Update**

   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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SWAP

SOUTH WEST AUDIT PARTNERSHIP

Delivering Audit Excellence

Taunton Deane Borough Council

Report of Internal Audit Activity

March Update 2012-13

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

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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" opinion 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.

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

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 Acolaid System which is now at report stage. The second additional review on Project Management Arrangements on the Crematorium Mercury Filtration Project scheduled for quarter 4 which is currently in progress.

Since the last committee there has been one further change to the Internal Audit Plan with the System Development Life Cycle deferred to quarter 1 of the 2013-14 plan. This is so we could accommodate a wider scope on the Asset Management Audit and Expenses Audit and undertake some additional analysis on the Gas Servicing Audit.

Progress to date

A list of all audits planned for 2012-13 and their status as at the 27 February are detailed in Appendix A. There are now a total of 39 reviews covering the 2012-13 plan. 31 are at a report status, and 8 are in progress. As previously reported there have been some variations to the planned delivery timings, namely around creditors fraud, contract fraud, Procurement Rules and software licensing.

So in summary, towards the end of February 79% of the plan was at a report stage and 21% in progress. Despite the partnership being hit by higher than normal levels of sickness and vacancies all audit field work should be materially completed by the end of March 2013 to ensure 100% delivery of the internal audit plan.

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.

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 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	Draft	Partial						
Governance, Fraud & Corruption	Data Security Breaches	1	Draft	Partial						
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	Final	Reasonable	2	0	0	0	2	0
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	Draft	Reasonable						
Governance, Fraud & Corruption	Committee Reporting - Member Decisions	2	Final	Reasonable	3	0	0	3	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ⟷ 5 = Major Recommendation				
						1	2	3	4	5
Governance, Fraud & Corruption	Procurement Rules (deferred to quarter 4)	2	In Progress							
ICT Audits	Adherence to the new Information Security Policy including portable storage security	2	Draft	Reasonable						
Operational Audits	Housing - Asset Management	2	Draft	Reasonable						
Operational Audits	South West Private Sector Housing partnership	2	Final	Reasonable	8	0	0	8	0	0
Operational Audits	SWO Contract Monitoring	2	Final	Reasonable	3	0	0	2	1	0
Operational Audits	Health & Safety Review	2	Final	Partial	9	0	1	6	2	0
Key Control	Creditors	3	Draft	Partial						
Key Control	Council Tax & NNDR	3	Final	Substantial	1	0	0	1	0	0
Key Control	Debtors	3	Final	Partial	8	0	1	5	2	0
Key Control	Housing Benefits	3	Final	Substantial	1	0	1	0	0	0
Key Control	Main Accounting	3	Final	Substantial	0	0	0	0	0	0
Key Control	Payroll	3	Draft	Reasonable						
Key Control	Capital Accounting	3	Draft	Reasonable						
Key Control	Housing Rents	3	Final	Reasonable	3	0	0	3	0	0
Key Control	Treasury Management	3	Final	Substantial	0	0	0	0	0	0
Key Control	SAP Access	3	In Progress							
Governance, Fraud & Corruption	Treasury Management Strategy Review Cross Partnership	3	In Progress							
Operational Audits	Benefit Scheme Changes	3	In Progress							
ICT Audits	Software Licensing	4	In Progress							
Governance, Fraud & Corruption	Fraud and Corruption - Expense Claim Fraud	4	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	Asset Management Planning	4	In Progress							
ICT Audits	System Development Life cycle **(Deferred to quarter 1 – Time used for additions work on Asset Management Planning, Gas Servicing and Members Expense Data)**	4	Deferred to Q1							
Operational Audits	Waste & Recycling (Contribution to SWP Plan)	4	N/A							
Operational Audits	Housing - Gas Servicing	4	In Progress							
Follow-up Audit	Project Taunton Follow up work **(Deferred to quarter 1 – replaced by Project Management Arrangements - Crematorium Mercury Filtration Project)**	4	Deferred to Q1							
Follow-up Audit	IT Strategy **(Deferred to quarter 1 – replaced by Project Management Arrangements - Crematorium Mercury Filtration Project)**	4	Deferred to Q1							

Additional Reviews

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ⟷ 5 = Major Recommendation				
						1	2	3	4	5
Special review	Acolaid	2	Draft	Non-Opinion						
Special review	Project Management - Crematorium Mercury Filtration Project	4	In Progress							

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

APPENDIX B

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
SAP Administration					
SAP user issues are not intrinsically shared, there is also little effective communication between users and Authorities. There is a SAP users group which is attended by a SWOne technical representative.	As outsourced delivery becomes more prevalent there is a significant risk that the authority may de-skill itself to the point where measurement and challenge of service delivery is compromised.	I recommend that Taunton Deane Borough Council should consider meeting with representatives from both Wiltshire and Dorset County Councils to identify issues of common interest and discuss possible solutions that could be applied by SAP users. Where it has been identified that issues could be addressed by re-educating users in how they can more effectively work with SAP applications any best practice should be shared based on successes achieved at individual councils.	Agreed	30 September 2013	Strategic Finance Manager
Data Cube for SAP not fully developed to drill down into the data and lack of deployment of the Business Intelligence (BI) module.	There is a risk that the Authority does not have effective access to up to date management information.	I recommend that Taunton Deane Borough Council should make contact with Dorset County Council and Wiltshire Council to discuss issues with SAP reporting and management information with a view to identifying potential improvements.	Agreed	30 September 2013	Strategic Finance Manager

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
Health & Safety Review					
A number of previous audit recommendations are either not completed or remain outstanding, namely: • Not all Health and Safety information is available on SharePoint. • There is no corporate programme for completion of risk assessments. • There is no comprehensive Health and Safety training database.	There is a risk that significant audit findings still have not been addressed and therefore the Authority are still not following best Health and Safety practice.	a) I recommend the SWO H&S Advisor ensures that revised key dates are agreed on implementing; 1.1a Completeness of Health and Safety information published on Sharepoint. 1.2a Completeness of Corporate programme for risk assessments.	Agreed	30/06/2013	SW1 Health and Safety Advisor
		b) I recommend the Health and Safety Advisor ensures that the following areas are included in the 'Compliance audit' documented in the Health and Safety strategy/plan; • Completion of risk assessments. • Completion and adequacy of Health and Safety policy. • Completion and adequacy of Health and Safety training	Agreed	30/06/2013	SW1 Health and Safety Advisor

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
SWO Contract Monitoring					
There is no independent verification on the accuracy of PI results.	There is a risk that inaccurate data is reported which could financially disadvantage the Council.	I recommend that the Corporate & Client Services Lead implements a regime for spot-checking reported performance indicator data.	Agreed	31 Mar 2013	Corporate & Client Services Manager
Debtors					
Debt Monitoring Reports are not run regularly in all services.	Service will not be able to make an informed judgement on its bad debt position to ensure the Council's overall bad debt position is minimised, as part of its budgetary monitoring process.	I recommend that the position as regards the monitoring of outstanding debt and the effectiveness of the debt follow up actions should be kept under active review by the Theme Managers in order to ensure consistency of approach across all sales offices.	Agreed	Ongoing	Theme Managers
The resourcing of debt monitoring has not been complete and as result some debts have not been properly pursued.	Not all debts due will be recovered.	I recommend that resource availability and allocation for debt follow up is closely monitored by the AR Team Manager to ensure debt chasing actions can be continuously progressed.	Agreed	Ongoing and will be reviewed once SAP scripting for TDBC is in place	Accounts Receivable Manager

Audit Framework Definitions	Appendix C

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.