



Taunton Deane Borough Council

Report of Internal Audit Activity
Quarter 2 2011/12

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox

Head of Internal Audit
Partnership
Tel: 01935 462371
gerry.cox@southwestaudit.gov.uk

Chris Gunn

Group Audit Manager
Tel: 01823 356417
chris.gunn@southwestaudit.gov.uk

Tony Brown

Audit Manager
Tel: 07720 312462
anthony.brown@southwestaudit.gov.uk

Summary	2
Internal Audit Work Programme:	3
Operational Audits	4
Managed Audits	4
Governance, Fraud and Corruption	5
Special Reviews	5
Future Planned Work	6
Conclusions	6

Summary Page 2

Our audit activity is split between:

- **Operational Audit**
- **Managed Audit**
- **Governance, Fraud & Corruption**
- **Special Reviews**

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, but 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 on 14th March 2011. Internal Audit provides an independent and objective opinion on the Council's control environment by evaluating its effectiveness. Primarily the work includes;

- Plan of Operational Reviews
- Annual Review of Key Financial System Controls (Managed Audits)
- Annual review of Key Governance and Fraud Controls

Overview of Internal Audit Activity

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 the Corporate Governance Committee at its meeting in March 2011.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Quarter 2 Outturn:

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 2011/12. 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.

Quarter 2 Outturn:

Completed Audit Assignments In The Period

Operational Audits

Operational Audits are a detailed evaluation of a service's 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.

There were six operational audits scheduled for quarter 2 within the TDBC Audit Plan for 2011/12. These were:

- a) Heritage and Landscape Services
- b) Economic Development
- c) Leases - Rents Receivable
- d) Supporting People
- e) Housing Benefit Subsidy
- f) Legal Services

We have completed to draft report the audit of Heritage and Landscape Services . The audits of Economic Development, Leases, Supporting People and Housing Benefit Subsidy are in progress. The Legal Services audit has been removed from the audit plan following discussion with the client. Additionally, we have commenced an audit on Licensing Income in quarter 2 which was originally scheduled for quarter 4.

Key Control Audits

Key Control Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. None of these key control audits were scheduled for quarter 2 of the TDBC Audit Plan for 2011/12.

Quarter 2 Outturn:

Completed Audit Assignments In The Period

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.

The TDBC Audit Plan for 2011/12 included three Governance audits which were scheduled for quarter 2. These were:

- a) Threat from Fraud and Corruption (Analytical Review)
- b) Information Governance
- c) Annual Governance Statement Review

The first two audits are currently in progress. In respect of the Annual Governance Statement review the audit scope was amended to provide advice in the construction of the Statement. and the number of days required was considerably reduced.

We have a further 3 audits scheduled for quarter 4 which are : Equalities and Diversity, Safeguarding of Children and Vulnerable adults and Service Planning.

IT Audits

During quarter 2 we included a review of IT Asset Management for which we have issued a Final Report. This audit was additional to the original plan and was co-ordinated with a similar review for Somerset County Council. This enabled us to make time savings for TDBC.

Special Reviews

A special review was commenced within quarter 2 which is examining the procedures in the leasing of some land owned by TDBC. This review is currently in progress.

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

This is detailed in [Appendix A](#) and is obviously subject to any changes in agreement with the S151 officer.

Conclusions

For those audits still required by the client SWAP are on target to complete those audits as planned. For the audits completed to report stage each report contains an action plan with a number of recommendations which are given service priorities. Definitions of these priorities can be found in the Categorisation of recommendations section in [Appendix C](#).

SWAP have recently implemented a change to the audit process for operational reviews whereby an assessment on the management of each risk is included in reports. Any risks where the auditor's assessment of risk to the organisation is "Very High" will be reported to the Audit Committee.

Audit report findings which have priority scores 4 or 5 are highlighted in [Appendix B](#) together with recommendations and management responses.

TDBC management have responded positively to internal audit suggestions for improvements and corrective action has already been taken in a number of cases.

APPENDIX B

Schedule of Key Actions from 2011/12 Internal Audit Work completed by SWAP (since the June Report)

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
June 2011	Debtors	Although an authorised signatory list has been compiled on a theme basis which gives details of who can authorise credit notes and a request for service (286) has been made to create roles for the creation and separate authorisation of credit notes, this work is still in progress.	Credit Notes are not raised and processed correctly	I recommend the Accounts Receivable Manager promptly progresses with Southwest One the matter of developing roles within SAP for the creation and separate authorisation of credit notes.	The progression of this RFS is dependant on ICT resources being made available – it is hoped that by the end of June 2011 that ICT will have a plan for addressing this– the implementation date reflects the fact that this plan is as yet not complete and has not been shared with the Finance service.	31.03.12
June 2011	Debtors	Although migrated debts to sales offices are being reviewed, miscellaneous debts (ACAD £235,991) do not have a natural owner.	Outstanding debts are not collected.	I recommend the Section 151 Officer ensures of review of miscellaneous (ACAD) migrated debts is undertaken and a view taken to what extent higher value debts are recovered and lower value debts are written off.	The Performance & Client Lead will arrange for debts above £500 in the ACAD sales office to be analysed in order to identify the appropriate 'owner' on a case by case basis. The owner will determine the appropriate next steps to be taken in order to address the debt. This is a manual exercise involving interrogating both SAP and the legacy systems.	30.09.12

Date.	Name of Audit	Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action
June 2011	Debtors	Through discussion with the Performance and Client Lead it was established although the Accounts Receivable team are contacting service managers about aged debts and asking them what recovery method they wish to use or write-off, in general responses are not forthcoming.	Outstanding debts are not collected.	I recommend the Section 151 Officer and Corporate Management Team look into the reasons given by service units for the lack of responses to the accounts receivable team about decisions on aged debts, with a view to progressing recovery action or write-off.	Feedback to be sought from the AR Manager giving examples and Services where poor response rates are encountered. This will then be raised as an agenda item at Theme Managers meeting.	30.08.11
June 2011	Creditors	Although E-PRF's are scheduled to be rolled out mid-June, the roll-out is still outstanding.	Transaction or event has not occurred or does not relate to the audited body.	I recommend the Shared Accounting Manager ensures E-PRF's are promptly rolled out throughout the Council and this is supported by appropriate guidance and training, which includes ensuring they are linked to VAT invoices.	A time table for the roll out of the EPRF has just been agreed with TDBC – training will commence on 13 June and finish on 23 June (3 sessions). Training guidance is already on the TDBC Intranet.	23.06.11 for completion of training
June 2011	Creditors	The master data vendor file has not been cleansed of duplicate suppliers.	Fraudulent or duplicate payments are made	I recommend the Shared Accounting Manager ensures a cleanse of the master vendor data file is carried out promptly.	The anticipated completion of this exercise is March 2012.	31.03.12

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.