

Taunton Deane Borough Council

CORPORATE GOVERNANCE COMMITTEE 28th June 2010

INTERNAL AUDIT PLAN – PROGRESS REVIEW

Report of the Group Auditor – 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 highlights significant findings and recommendations that have occurred since the Committee last considered the detailed findings of Internal Audit reports in March 2010.

2. Background

To provide members with an update on the activities of the Internal Audit team for the period April to June 2010.

3. Audits Completed

3.1 Operational Audits - Operational audits are a detailed evaluation of a 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.

For Operational Audits SWAP aim to provide management and Members with a level of assurance on the robustness of the internal control environment. The following categories of assurance have been agreed:

<p>▲★★★ Comprehensive</p>	<p>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.</p>
<p>▲★★★ Reasonable Assurance</p>	<p>Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the</p>

	introduction or improvement of internal controls to ensure the achievement of objectives.
▲★☆☆ Partial Assurance	Most of the areas reviewed were not found to be adequately controlled. Generally risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
▲☆☆☆ No 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.

The following operational audit has been finalised since the Committee last considered audit reports in detail in March 2010 as below:-

Audit Area	Audit Opinion
Street Cleansing	▲★☆☆ Partial
Free Swimming Initiative	▲★★★★ Comprehensive
Asset Management	▲★☆☆ Partial
Creditors	▲☆☆☆ No Assurance

Street Cleansing

Controls around day to day operations appear to be operating effectively. Our audit opinion relates predominantly to weaknesses in current financial management, and this stems from a lack of training for service operatives and accountancy officers through the migration to the SAP accounting system. Delays in developing specific interfaces to enable income data to be transferred accurately and completely into SAP has further compounded the problems experienced in budget monitoring. We appreciate that actions are in place to resolve the issues we have reported. Management need to closely monitor their progress as the year end approaches. A certain level of integrity will need to be in place prior to closing the annual accounts.

Free Swimming Initiative

The purpose of this audit was to verify that sound controls for the 'Free Swimming' initiative are in place and operating effectively. Controls surrounding the claims made to the Department for Media, Culture and Sport for the free swims taken were sound with the data being extracted direct from the operating system at each site was accurate. Monthly claims were made to the DCMS in accordance with their timescales.

Asset Management

Property Services has developed an Asset Management Plan for the Council which seeks to embrace best practice in managing the Councils' land and buildings. This is being supported by detailed operational procedures which will provide clear definition of the approach to the management and resolution of property related issues.

The findings in this audit that have driven the overall partial assurance assessment relate to the maintenance of the property records, the management of leases and the billing and collection of rents.

The audit identified the need to prove accurate setting up of billing records for property leased out. There was evidence that at the time of the audit there was no reconciliation between the SAP Accounts Receivable record of rents and licence fees due and the Property Services records. SWOne have subsequently sent out a listing containing to all live contracts to all sales offices contacts following the recommendation raised in the TDBC Debtors audit report.

It is noted that debt follow up of unpaid rents needs to be given priority to reduce likelihood of the non-recovery or write off of debts. SWOne have agreed to check existing processes and confirm to TDBC key actions required and any resourcing implications.

The insurance of property was raised as an area for concern, testing revealed that there was no confirmation of insured values for property held and no direct evidence of property insurance cover where tenant responsible for insurance. SWOne have agreed to carry out a 5% sample to assess accuracy of existing values. SWOne recognise that each lease determines the liability for insurance therefore the obligation must remain with the tenant, however they will continue to request Insurance certificates from tenants.

Creditors

The basis of this opinion is that the interim arrangements did not provide a clear audit trail of approval and direct input exposes the Council to risk of erroneous payments. Further, TDBC are not in a position to use the system as originally intended as the management structure is not reflected in SAP to allow '3-way matching' in order to pay the majority of invoices automatically. For this to work incoming invoices need to contain a purchase order, which means authorised staff need to be able to produce purchase orders. To enable this to work in practice, as part of the Core Council review, all of the Organisational Management structure is being either checked or re-written. Along side this all of the delegations are being checked with managers.

There is also the on-going issue regarding correcting errors from the first two quarters of the financial year. Given the interim approval arrangements in place during the early part of 2009 and no requirement for approval of new suppliers, the risk of potential fraudulent payments

was increased. This is why it is important that budget holders can confirm the accuracy of their budgets once all the emergency payments have been code correctly and the temporary holding codes have been cleared. SWOne e-mailed all budget holders after the holding codes and other transactions were coded correctly within SAP asking them to check their budgets (income and expenditure) offering accountancy help where necessary.

- 3.2 Managed Audits –The Managed 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.

Managed audits completed by SWAP during the period April 2009 to March 2010 and previously reported to Committee are as follows:

Review Area	Report Status
Council Tax / NNDR	▲ ★★☆☆ Reasonable
Housing Benefits	▲ ★★☆☆ Reasonable
Main Accounting	▲ ★☆☆☆☆ Partial
Payroll	▲ ★☆☆☆☆ Partial

Council Tax / National Non-Domestic Rates

This review has found that the key controls for the Council and NNDR operation are operating well. This is much to the credit and the experience of the staff involved who carry out their duties diligently whilst maintaining accurate records.

The main concerns of the findings relate to SAP accounting and reconciliations, and ensuring consistency of process. Nonetheless implementation of the recommendations made in this report will mitigate the identified risks and serve only to enhance what is in essence a very good service.

Housing Benefits

This review has found that the key controls for the Housing Benefits operation are operating well. This is much to the credit and the experience of the staff involved who carry out their duties diligently whilst maintaining accurate records.

The roll out of SAP has meant reconciliation of rent allowance payments to the general ledger had not occurred during the financial year. SWOne has agreed that this task will now be completed by the Senior Control Officer. SWOne were at the time of finalising the audit (April 2010) familiarising themselves with SAP to find the best way to do this and have agreed to document the process of reconciling HB payments to the General Ledger as part of their Process Documentation project.

Main Accounting

Clearly as a result of SAP implementation there were a range of outstanding issues relating to financial controls and budgets. These have impacted on the ability of the Council to accurately monitor budgets. Key among these issues was the lack of an interface between SAP and the DLO systems and the various amounts that at the time of the audit have yet to be correctly allocated to budget codes.

Although training has been provided to key users there was a feeling that this it was not adequate to support the users' needs. Consequently there was a lack of confidence in navigation within SAP and this has compromised the budget holders' ability to monitor budgets. To ensure this situation is addressed the Council has put in place a SAP relaunch plan which includes training for budget holders to ensure they are able to navigate SAP and monitor their budgets.

Coding issues have limited the confidence in reported information derived from SAP. The charging of supplier payments has impacted upon the accuracy of reported outturn information against each code. The Finance Advisory Team have produced a list of all Profit/Cost Centres and identified the budget holder responsible for each. This was updated with the launch in May 2010 of an updated Organisation Management (OM) structure (being defined by the S151 Officer).

Payroll

The main causes for concern related to access levels within the SAP HR/Payroll application, the lack of accurate budget monitoring information available to managers and errors identified in the coding of employees to the correct budget.

Although there is a clear process for granting access to SAP HR/Payroll because of the complexity of user access privileges particularly with composite roles it was not possible to confirm that access is restricted only to staff who should have access and that there are no conflicting access privileges. The Retained HR Manager has agreed to seek assurance from the HR and Payroll Admin Manager after the completion of the Deloitte work instigated by SWOne that roles and responsibilities have been appropriately assigned.

All budget holders have access to SAP to run their own budget reports each month, however during the first few months of 2009/10 there was no detailed payroll costing information available to budget holders.

The Financial Advisory team gather budget outturn information from SAP through the "Budcon" reports. This data is punched into Excel spreadsheets which forms the basis of discussion with budget holders in quarterly meetings. The detail presented did not allow the budget holder to determine who is being charged to the budget as just single line entries are presented for payroll, NI ,LG Pension etc.

Budget holders cannot access SAP payroll. Since July 2009 however the Financial Advisory team have been getting separately the months payroll costs detail from SAP. The detailed staff payroll costs are now being presented in the quarterly meetings with budget holders. It has become apparent that in many cases staff costs were being charged to the wrong budget holder or the wrong budget (eg Crematoria payroll costs to Cemeteries and vice versa). In some cases the code was not set up from the "go live" date and in other cases codes have changed in year (eg because of the Core Council review).

In December the Financial Advisory team tried to get most of these errors sorted out (90% of the corrections were made), a secondary list of salary cost adjustments has been identified and assurance has been given from SWOne that the remaining errors have been corrected before the year end. SWOne have also agreed to undertake further work to identify the requirements for TDBC managers to ensure that they able to easily check the accuracy of employees charged against their budget.

4. Workload Update

In addition to the audit work detailed below there are a number of other areas of work that SWAP have undertaken including the on-going provision of audit advice, ad-hoc special investigations and involvement in the SAP project providing advice and guidance on control issues.

The following reviews are in progress or are going through the reporting process :-

Audit area	Type of review	Progress
IT Audit - Compliance against ISO27002 level one	Computer Audit	Draft Report
IT Audit – Disaster Recovery Planning	Computer Audit	Draft Report
Debtors Qtr 4	Managed Audit	Draft Report
VAT Qtr 4	Operational Audit	Re-Scheduled for quarter 1 2010/11
Building Control Qtr 4	Operational review	Report Being Drafted
Risk Management (Major Projects / Partnerships) qtr 1	Governance Review	Testing
Procurement (Category Management) qtr 1	Governance Review	Report Being Drafted
Data Quality Performance Indicators qtr 1	Governance Review	Report Being Drafted
Housing Choice Based Lettings qtr 1	Operational Review	Dropped to make way for DLO Due Diligence work
Property Services qtr1	Operational Review	Dropped to make way for DLO Due Diligence work

Customer Services qtr 1	Operational Review	Testing
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5. Finance Comments

N/a

6. Legal Comments

N/a

7. 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.

8. Environmental and 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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