

# TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 16<sup>th</sup> March 2009

## INTERNAL AUDIT PLAN – PROGRESS REVIEW

**REPORT OF THE GROUP AUDITOR (South West Audit Partnership) This matter is the responsibility of Councillor Henley, the Leader of the Council.**

### EXECUTIVE SUMMARY

This report highlights significant findings and recommendations that have occurred since the Committee last considered the findings of Internal Audit reports in December 2008.

#### 1. Purpose of Report

To provide members with an update on the activities of the Internal Audit team for the period January 2009 to March 2009.

#### 2. Work undertaken by Internal Audit January to March 2009

**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>▲ ★ ★ ★ <b>Full Assurance</b></p>	<p>The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively at all times and risks against the achievement of objectives are well managed.</p>
<p>▲ ★ ★ ★ <b>Reasonable Assurance</b></p>	<p>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</p>
<p>▲ ★ ★ ★ <b>Partial Assurance</b></p>	<p>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.</p>
<p>▲ ★ ★ ★ <b>No Assurance</b></p>	<p>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.</p>

The following operational audit has been finalised since the Committee last met in December 2008 as below:-

Audit area	Audit Opinion
Economic Development	▲ ★ ★ ★ <b>Partial Assurance</b>
Housing Repairs	▲ ★ ★ ★ <b>Reasonable Assurance</b>

## Economic Development

The opinion has been graded as partial based upon the evidence examined at the time of the audit. However, I can also affirm from information provided that there has been a significant review completed in respect of the performance of the service by the new manager and service plans have been agreed and put in place that will re-establish the role and function of the Economic Development service.

Significant weaknesses were identified in the following areas:-

- Website contains out of date information - There are application forms and guidance notes available on the website which can be downloaded to guide businesses applying for grants, at the time of testing it was found that the website was out of date, listing inaccurate grant information. I was provided a copy of a spreadsheet that contained a list of website amendments one of which was to remove the incorrect information from the website, however there is no date recorded against the request nor is there evidence of submitting this to IT for implementation. - note there are 4 members of staff being trained as web authors for the new SWONE website and this will mean the service will be responsible for its own content. There is a risk that companies no longer approach the Council for advice and subsequently economic activity in the district decreases due to poor quality of content on the Council's website. *Management Response* : The EDU is working collaboratively to establish a countywide inward investment place marketing activity delivered through the Into Somerset Brand. An Into Somerset website has been launched and there is a willingness to establish unified enquiry handling protocols. The Project Taunton team are actively promoting the Firepool site and the new Employment and Skills Officer has been tasked to identify how the EDU can contribute to and assist in this activity. The new TDBC website will provide links to both of these portals.
- Partnerships lack accompanying legal agreements : Having spoken to the Economic Development manager I can confirm that there are SLAs in place with the Taunton East Development and the Brewhouse theatre. The only partnerships that the Economic Development service is a member of at present are Into Somerset and the Somerset Tourism Partnership. There is no legal agreement in place at present for these partnerships which TDBC currently contribute £30K towards the cost of the Somerset Tourism Partnership, and a budgeted £50k over 3 years to Into Somerset. There is a risk that the authority may find its financial and man power resources being 'sucked' into undesirable projects if there are insufficient legal agreements in place where partnerships are entered into.

*Management Response* : The Economic Development Manager has led on initiating a review of Into Somerset structure and a paper will be presented to the Regeneration Directors Group in January 2009, prior to a paper being submitted to O&S and Executive in March 2009 for approval. Establishing a formal structure for the Somerset Tourism Partnership prior to the next funding period is not likely to be achieved, so the Economic Development Manager will propose to the STP Management Group that TDBC act as lead organisation for the Partnership for 2009/10 and establish SLAs with partners to secure funding for the next financial year.

- Assessment and Project Planning - Through discussion with the service manager it was established that an assessment process is required to access any of the funds that the service has available for projects. Prior to the current manager taking post assessments were required for any projects funded out of the service budget, however he has found there is no documentary evidence of any assessments being required to secure LABGI funding. This lack of formality has caused problems with organisations requesting money that had apparently been promised to them by the previous service manager for which there is inadequate supporting documentation/evidence of justification/approval/allocation of funds. There is a risk that the Council is funding projects that are not aligned with its corporate objects and provide poor value for money for the community.

*Management Response:* LABGI funding recipients have been consulted and It is confirmed that there are no delivery contracts or SLAs in place to support previous LABGI grants. All projects have been reviewed and where it has been agreed that funding will continue SLAs have been or will be established before grants are authorised

## **Housing Repairs**

The common theme perceived from the original findings of this review is that whilst the job is being done there has not been sufficient close management attention been paid to the detailed evaluation, documentation and agreement of procedures to be followed to undertake the varying tasks required. However, the positive actions undertaken by the Housing Property Manager to mitigate the identified risks has enabled the audit assessment to be revised upwards providing management with a higher level of assurance. As part of this process, the risk assessment recommendations reported at draft stage have been reviewed and some have been revised from Medium to Low.

Significant weaknesses were identified in the following areas:-

- Tenants signing to confirm works - After discussions with the Works Coordinator I was informed that the tenant is not required to sign the works order to confirm that the work has been carried out. This is because the tenant is not always there when the work is completed. The Job ticket as issued to the contractor does, however, have a section pre-printed where the tenant is expected to sign to affirm that the work has been completed. This causes several risks for the Council. There is a reputational risk that the Council say they have carried out work but tenant says they have not. There is a risk that the Council are not aware if work is not being completed and as a result no steps are taken to ensure this does not happen again. There is a risk to the health and safety of the tenant if the work is not carried out to a satisfactory standard. *Management Response* : Where ever possible we will

try to obtain a signature from tenant, procedures have been reviewed to require tradesman to indicate why signature was not obtained.

- Payment in advance for Rechargeable works - Where a tenant indicates that they wish the Council to undertake the rechargeable repair they are clearly advised that they will be invoiced for the cost. This normally is done by phone as typically the nature of the work is 'urgent' i.e. a broken window or door. A job order and a letter to be signed by the tenant acknowledging the debt is then generated and a tradesman attends. On arrival the tradesman seeks to get the tenant to sign the letter acknowledging that they will be responsible for the cost. However, despite earlier verbal assurances on the phone, not all tenants will sign the letter. The tradesman then has to assess the situation and determine whether declining to do the work will conflict with the Council's social landlord responsibilities – i.e. that the property is safe and secure. On occasion, the tradesman will determine that works have to be carried out to meet this requirement despite a refusal to sign the acknowledgement letter. In these instances the bare minimum of work required will be performed to meet landlord obligations. This is recorded on the job sheet by the tradesman. On completion of the works the cost is identified and a sundry debtor account is raised upon the tenant. There is a risk that difficulties may occur in recovering the cost of rechargeable works as tenants may refute liability for the charge or that the Council suffers a financial loss from a failure to adequately pursue and recover costs incurred on works where the tenant is liable for the expenditure. *Management Response* : A pro-forma invoice is issued in advance where possible to collect income before work performed. The wording of letter to tenants will be looked into to determine whether it is necessary to get tenant to sign at time agreeing to pay costs, thus avoiding potential confrontational issues for tradesman attending when signature refused.

## **Managed Audits**

### **Creditors**

It would be expected that most of the controls should be working in a satisfactory manner. This audit identified eight weaknesses (six of which were partial weaknesses). The main concerns are similar to those reported in 2007/08; the lack of a detailed procedural manual, the inability of the current system to disable duplicate creditor numbers and the growing reliance that is placed on scanned images to provide an audit trail. It is hoped that many of the issues identified during this review will be addressed by the implementation of SAP.

### **Debtors**

This managed audit review has established that there are some key controls that are not operating as required to reduce the risk of losses. From samples tested we did not find any irregularity, however, there is opportunity to do so and the recommendations made in this report should be actioned as soon as possible as key controls should be operated at all times. Key weaknesses were identified in the areas of delays in the raising of invoices, lack of authorisation relating to the cancellation of debts and duplicate supplier references. Measures have been put in place to address these weaknesses.

## **Non-Domestic Rates**

The audit review has identified seven areas of weakness. However, when reviewed against the previous year's audit report, progress has been made in relation to some of the areas that were previously reported. At the time of the audit, new procedures were in the process of being implemented to improve the control framework, these related specifically to the sample checking amendments to bills, processing of discounts and the monitoring targets dates for processing data. Weaknesses were identified in the areas of authorising refunds under £10k, the processing Valuation Office amendments and system access and user rights. It is hoped that the new SAP implementation will resolve some of the above issues the ongoing issue of the reconciliation of the NNDR system to the General Ledger.

## **Housing Rents**

The review concentrated on the testing of the Housing Rents system examining the overall controls in place. The Housing Rents function is handled by 2 departments. It is our opinion that the Housing Rents system operates within a satisfactory system of internal control in most key areas. However, the review identified issues around the lack of an independent check of the number of properties recorded on the Rents System and an imbalance between the values recorded on the Rents System and the Council's Main Accounting System.

## **Housing Benefits**

The purpose of this audit was to verify that key controls for the Housing Benefits system are in place and operating effectively. Sixteen of the twenty controls were found to be working in a satisfactory manner, and I am pleased to report that of the four issues identified, none were significant control failures. It is also pleasing to note that the number of recommendations has reduced by comparison with the previous audit reflecting significant improvements in the control environment. There were four recommendations brought forward from the previous audit and management should seek to ensure that these outstanding issues are addressed.

### 3. Workload Update

Although there are a substantial number of reports at draft stage the workload for quarter 4 will allow for those audits to be finalised before the end of the financial year.

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 :-

<b>Audit area</b>	<b>Type of review</b>	<b>Progress</b>
Procurement	Operational Review	Draft Report
Transport Policy	Operational Review	Draft Report
Partnership Arrangements	Operational Review	Testing
Council House Sales	Operational Review	Draft Report
Council Tax	Operational Review	Draft Report
Treasury Management	Operational Review	Draft Report
IT Audit - Compliance against ISO27002 level one	Computer Audit	Draft Report
IT Audit – Social Networking	Computer Audit	Draft Report
IT Audit – Disaster Recovery Planning	Computer Audit	Draft Report
Main Accounting	Managed Audit	Draft Report
Payroll	Managed Audit	Draft Report
Capital Accounting	Managed Audit	Draft Report

### 4. Recommendation

The Committee should note the content of this report.

#### **Contact Officer:-**

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