

Taunton Deane Borough Council

Corporate Governance Committee - 11 March 2013

Internal Audit Plan 2013/2014

Report of the Strategic Director (Shirlene Adam)

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

Executive Summary

This report introduces the Internal Audit Plan for 2013/2014 and also incorporates an 'Internal Audit Charter' which sets out the operational relationship between TDBC and the South West Audit Partnership (SWAP).

This is a flexible plan that may be amended during the year to deal with shifts in priorities.

1. Background

Internal Audit Plan 2013/2014

- 1.1 The Internal Audit service for Taunton Deane Borough Council is delivered by South West Audit Partnership (SWAP).
- 1.2 The internal audit plan for 2013/2014 is set out in the attached report from SWAP. I am satisfied that this plan is focussed on key risks areas, and will help provide me with assurance on internal controls.
- 1.3 This has been discussed and supported by the Councils Corporate Management Team and is now shared with Members for approval.

Internal Audit Charter (Appendix B)

- 1.4 The internal audit service provided by the South West Audit Partnership (SWAP), works to a Charter that defines its roles and responsibilities and the roles and responsibilities of the Borough's managers as they relate to internal audit. Best practice in corporate governance requires that the Charter be reviewed and approved annually by the Corporate Governance Committee.
- 1.5 The Charter was last reviewed by the Corporate Governance Committee at their meeting on 12 March 2012 and would ordinarily be due for review and approval at this meeting.
- 1.6 Members will be aware that it has been approved by the SWAP Partnership Board that SWAP continues to move towards becoming a Company Limited by Guarantee. If finally approved by all appropriate

Partner Committees, this is likely to result in changes to roles and responsibilities within the Partnership. In addition the Public Sector Internal Audit Standards (PSIAS) will become mandatory effective from 1 April 2013. These too will have some impact on the Charter and therefore we suggest that the review of the Charter is deferred until June when we will hopefully also be able to provide the Committee with a brief resume of the PSIAS recommended practice that may warrant our attention.

2. Financial Issues / Comments

2.1 The plan will be delivered within the agreed budget for internal audit.

3. Legal Comments

3.1 There are no legal implications from this report.

4. Links to Corporate Aims

4.1 No direct implications.

5. Environmental and Community Safety Implications

5.1 No direct implications.

6. Equalities Impact

6.1 The approval of the internal audit plan does not require an equalities impact assessment to be prepared.

7. Risk Management

7.1 Any risks identified will feed in to the corporate risk management process.

8. Partnership Implications

8.1 The Strategic Director and the Internal Audit Team (SWAP – South West Audit Partnership) meet regularly to review the progress against plan. Quarterly updates are provided to this Committee.

9. Recommendation

9.1 The Corporate Governance Committee is requested to approve the Internal Audit Plan for 2013/2014.

9.2 To request the Audit Committee to accept the deferral of the Internal Audit Charter review until after April 2013.

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Taunton Deane Borough Council

Internal Audit Plan 2013-14

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Role of Internal Audit & Background

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The Annual Audit Plan

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Appendix A

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Our audit activity is split between:

- **Key Control Audit**
- **Governance, Fraud & Corruption Audit**
- **IT Audit**
- **Operational Audit**
- **Follow-Up Audit**
- **Non-Opinion Reviews**

Role of Internal Audit

The Internal Audit service for Taunton Deane Borough Council (TDBC) is provided by South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors and also guided by interpretation provided by the Public Sector Internal Audit Standards. The work of the Partnership is also guided by the 'Internal Audit Charter' which was last reviewed and approved by the Audit Committee at its meeting on 12th March 2012

Internal Audit provides an independent and objective opinion on the Authority's governance, risk and control environment by evaluating its effectiveness. In order to achieve this, the audit activity is split across the review categories listed to the left.

Background

It is recommended by the Public Sector Internal Audit Standards that organisations nominate a 'Board' to oversee (monitor and scrutinise) the work of Internal Audit. As such, in addition to senior management oversight, this Council has determined that, the Corporate Governance Committee will undertake this function. The plan is presented in [Appendix A](#) to this report and represents the internal audit activity for the 2013/14 financial year.

It should be noted that plan days are only indicative for planning our resources. At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. Any changes to individual plan items, in terms of days, are managed within the annual payment made by the Council. The plan is pulled together with a view to providing assurance to both Officers and Members that current risks faced by the Authority are adequately controlled and managed. As with previous years the plan will have to remain flexible as new and emerging risks are identified. Any changes to the agreed plan will only be made through a formal process involving the Strategic Director (Section 151 Officer) and reported to this Committee.

The Annual Plan

The Annual Plan

In order to develop the plan for the year, the Audit Manager reviewed the Corporate Risk Register, Service Plans and Service Risk Registers as well as liaising with the Corporate Management Team (CMT) and the Section 151 Officer. In addition, SWAP Management facilitated a Control and Risk Self Assessment (CRSA) session with the SWAP Management Board. The session identified emerging risks facing local authorities in general with a view to co-ordinate, where possible, with audits of other members of the South West Audit Partnership (SWAP). Joint audits of this kind should derive real benefits in both reducing overall time taken and in the shared lessons that can be experienced by all partners.

The audit plan is notionally broken down across various audit categories; the following summarises each:

Key Control Audits – focus 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. To this end we have liaised with External Auditor representatives and included any requirements that they have in providing them necessary assurance, in line with the International Auditing Standards, that they are required to audit against.

Fraud/Governance Audit –SWAP operate a specialised Fraud Team who will undertake proactive fraud reviews and also provide a reactive service to partners should the need arise. Fraud and Governance reviews were identified at the CRSA session involving partner Section 151 Officers or their representatives. The focus of the governance reviews is primarily the key risks relating to cross cutting areas that are controlled and/or impact at a corporate rather than service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will, in some cases, enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting these reviews at all out partner sites.

The Annual Plan - Continued

The Annual Plan - Continued

IT Audits – are completed to provide the Authority with assurance with regards to their compliance with industry best practice. Some of these audits have come from previous year assessments and our awareness of current IT risks. As referred to above IT system Key Control work is also undertaken in accordance with the External Auditors requirements.

Operational Audits – are detailed evaluation of 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.

Follow Up Audits – Where an audit receives a Partial or No Assurance level, SWAP are required to carry out a follow up review to provide assurance that identified weaknesses have been addressed and risks mitigated. Known follow ups from work undertaken in the 2012-13 plan have been built in. A contingency has also been built in into the plan so that, should any early reviews be awarded this level of assurance, they can be followed up in a timely manner.

Non-Opinion Reviews – are undertaken at the specific request of management, where they may have some concerns or are looking for advice on a particular subject matter. Such reviews are not normally afforded an audit opinion. At this stage time has been allocated for West Somerset Council throughout the year to provide non-opinion based support.

The Annual Plan - Continued

The Annual Plan - Continued

Audit Drivers - A key element of risk based audit planning is the relative prioritisation of audit review work. This helps to ensure that resources are targeted at the most significant aspects of the Councils operations. A brief description explaining the context behind each of these 'drivers' is as follows;

Business Change/Improvement - This recognises increased risk as a result of significant change.

Fraud - To recognise an inherent risk of fraud present in particular systems or activities of the Council.

Corporate Priorities – To recognise the importance of the area as aligned to the priorities in the Corporate Plan.

Business Critical – This provides coverage of those areas that could have a significant impact on the Council's core ability to deliver services.

Risk Register – To recognise the risk associated with this area/system as contained within the corporate risk register or service risk register.

SWAP Best Practice Reviews - These are audits which are carried out across the SWAP Partnership the outcomes of which will help to share knowledge and inform best practice and risk mitigation.

Audit History - These reviews have been prioritised as a result of the time period since the last review and or significance of previous audit findings.

Financial – This considers the value and number of transactions going through the system which creates an inherent risk.

Reputational – This recognises the embarrassment to the authority should something go wrong and become public knowledge.

Performance – This takes into account where there is known performance failure/issues known to the service, i.e. KPI failures.

Audit Plan 2013-14

APPENDIX A

Audit Title	Resource (days)	Quarter	Key Drivers									
			Business Change / Improvement	Fraud	Corporate Priorities	Business Critical	Risk Register	Best Value Review	Audit History	Financial	Reputational	Performance
Key Control												
Creditors	15	3		Y		Y					Y	
Council Tax & NNDR	15	3		Y		Y					Y	
Debtors	12	3		Y		Y					Y	
Housing Benefits	12	3		Y		Y					Y	
Main Accounting	15	3		Y		Y					Y	
Payroll	10	3		Y		Y					Y	
Capital Accounting	8	3		Y		Y					Y	
Housing Rents	12	3		Y		Y					Y	
Treasury Management	5	3		Y		Y					Y	
Governance, Fraud & Corruption												
Debt Management	15	3	Y	Y		Y	Y	Y			Y	Y
Council Tax Reduction Scheme	15	2	Y			Y	Y	Y			Y	Y
Fighting Fraud Locally	15	2		Y				Y			Y	Y
Home working Arrangements	15	4	Y					Y				

Audit Title	Resource (days)	Quarter	Key Drivers									
			Business Change / Improvement	Fraud	Corporate Priorities	Business Critical	Risk Register	Best Value Review	Audit History	Financial	Reputational	Performance
ICT Audits												
Disaster Recovery Arrangements	10	4				Y	Y		Y		Y	
IT Financial Controls, Inc Access (Key Financial System Audit)	15	3		Y		Y				Y	Y	
Data Centre Facilities Management	10	1				Y					Y	
System Development Life Cycle	12	1	Y									Y
Non-SAP business critical applications	15	2				Y					Y	
Operational Audits												
Car Park Contract Management	8	1	Y							Y		Y
Imprest Analysis/Cash Handling	6	4		Y						Y	Y	
Procurement Cards	12	2		Y							Y	
Taunton Deane Partnership's 'Priority Areas Strategy' (PAS) programme	12	1			Y		Y					
Health & Safety	12	4	Y				Y		Y			
Revs and Bens brought in house	8	2	Y			Y				Y		
1. Contract Audit - Spend Analysis	8	1		Y						Y	Y	Y
2. Contract Audit – Pre & Current	20	1 & 2		Y						Y	Y	Y
Community Infrastructure Levy (CIL)	5	2	Y									
Affordable Housing	15	1			Y							
Partnership Arrangements	12	4				Y			Y	Y	Y	Y

Audit Title	Resource (days)	Quarter	Key Drivers									
			Business Change / Improvement	Fraud	Corporate Priorities	Business Critical	Risk Register	Best Value Review	Audit History	Financial	Reputational	Performance
Non- Opinion Reviews												
West Somerset Council	12	1, 2, 3, 4	Y				Y				Y	
Follow-Up Audits												
Project Taunton - Follow Up	6	1							Y			Y
ICT Strategy - Follow Up	4	1				Y			Y			Y
Equality Impacts on Decisions - Follow-up	4	2							Y		Y	
Data Security Breaches Follow-up	4	2					Y		Y		Y	Y
IS Regulatory Compliance - Follow-up	4	2							Y		Y	
Business Continuity Arrangements - Follow-up	6	1				Y	Y		Y		Y	
Non Project Related												
Somerset Waste Partnership Plan Contribution	5	1, 2, 3, 4										
Follow-ups	6	3, 4										
Corporate Advice	10	1, 2, 3, 4										
Corporate Meetings	16	1, 2, 3, 4										
External Audit	4	2, 3, 4										

Appendix B

Taunton Deane Borough Council - Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Taunton Deane Borough Council, and to outline the scope of internal audit work.

Approval

This Charter was approved by the Corporate Governance Committee on 25th September 2006 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Corporate Governance Committee on 14th March, 2011.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership (SWAP) on a 5 year contract expiring on 31 March, 2015. This charter should be read in conjunction with the Trading Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the SWAP Partnership Board. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Partnership Board. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Strategic Director (Section 151 Officer) in consultation with the Head of Internal Audit Partnership.

Role of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management and of Internal Audit

Management

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and

- direct access and freedom to report to senior management, including the Chief Executive and the Corporate Governance Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors. Internal Audit also complies with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

Internal audit is not responsible for any of the activities which it audits. Members of SWAP will not assume responsibility for the design, installation, operation or control of any procedures. Members of SWAP who have transferred in to the department from other areas of Taunton Deane Borough Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Head of the Internal Audit Partnership is responsible to the SWAP Management Board and the Partnership Board. The Head of Internal Audit Partnership and the Group Audit Manager also report to the Strategic Director, as Section 151 Officer, and report to the Corporate Governance Committee as set out below.

Appointment or removal of the Head of Internal Audit Partnership is the sole responsibility of the Partnership Board.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. Members of SWAP engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Taunton Deane Borough Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraising the effectiveness and reliability of the enterprise risk management framework and recommending improvements where necessary;
- assisting management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether Taunton Deane Borough Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- reviewing the operations of the Council in support of the Council's anti-fraud and corruption policy.
- at the specific request of management, internal audit may provide consultancy services, provided:
 - the internal auditor's independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Corporate Governance Committee, for information, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least two times a year to the Corporate Governance Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Corporate Governance Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Strategic Director (Section 151 Officer), the Chief Executive Officer and to other relevant line management.

The Group Audit Manager will submit an annual report to the Corporate Governance Committee providing an overall opinion of the status of risk and internal control within the Council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Head of Internal Audit Partnership and the Group Audit Manager have the unreserved right to report directly to the Leader of the Council, The Chairman of the Corporate Governance Committee, the Chief Executive Officer or the External Audit Manager.

Revised March 2012