

Taunton Deane Borough Council

Corporate Governance Committee – 20 June 2017

SWAP Internal Audit – Internal Audit Plan 2016/17 Outturn

This matter is the responsibility of Executive Councillor Richard Parrish

Report Author: Alastair Woodland, Assistant Director, SWAP

1 Executive Summary

- 1.1 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.
- 1.2 The 2016-17 Annual Audit Plan is to provide independent and objective assurance on TDBC's Internal Control Environment. This work will support the Annual Governance Statement.

2 Recommendations

- 2.1 Members are asked to note progress made in delivery of the 2016/17 internal audit plan and significant findings since the previous update in March 2017.

3 Risk Assessment

- 3.1 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.

Risk Matrix

Description	Likelihood	Impact	Overall
Without the delivery of the approved audit plan there is the risk of insufficient audit work being completed to provide a reasonable assurance to stakeholders that there is an effective control framework in place, adequately mitigating risks to the authority's risk appetite.	3	3	9

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background

4.1 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 March 2017.
- 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.

4.2 For Internal Audit Progress Report for 2016/17 is contained within the attached SWAP Report.

5 Links to Corporate Aims

5.1 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.

6 Finance

6.1 There are no specific finance issues relating to this report.

7 Legal Implications

7.1 There are no specific legal issues relating to this report.

8 Environmental Impact Implications

8.1 There are no direct implications from this report.

9 Safeguarding and/or Community Safety Implications

9.1 There are no direct implications from this report.

10 Equality and Diversity Implications

10.1 There are no direct implications from this report.

11 Social Value Implications

11.1 There are no direct implications from this report.

12 Partnership Implications

12.1 There are no direct implications from this report.

13 Health and Wellbeing Implications

13.1 There are no direct implications from this report.

14 Asset Management Implications

14.1 There are no direct implications from this report.

15 Consultation Implications

15.1 There are no direct implications from this report.

Democratic Path:

- **Corporate Governance Committees – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

Reporting Frequency : Once only Ad-hoc Quarterly

Twice-yearly

Annually

List of Appendices (delete if not applicable)

Appendix A	SWAP Internal Audit Outturn Report 2015/16
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Taunton Deane Borough Council

Report of Internal Audit Activity

Plan Progress 2016/17 Outturn

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Internal Audit Plan Progress 2016/2017 Outturn

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for the Taunton Deane Borough Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), 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 meeting on March 2016.

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 Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

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 and approved by this Committee at its meeting in March 2016.

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

Internal Audit Plan Progress 2016/2017 Outturn

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

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2016/17. 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 “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in **Appendix A** of this document.

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. One review since the March 2017 update has returned a Partial Assurance Opinion, this being Open Spaces External Works – Charging & Income Collection.

Whilst this review did not identify any risks at a corporate level, there were several control weaknesses that hinder the service’s ability to fully achieve it’s intended objectives. Further details on this specific audit can be found within **Appendix C**.

Internal Audit Plan Progress 2016/2017 Outturn

We keep our audit plans under regular review to ensure that we are auditing the right things at the right time.



Approved Changes to the Audit Plan

The audit plan for 2016/17 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Taunton Deane Borough Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

Since the March 2017 committee report there have been no further changes to the audit plan for 2016-17 that I need to bring to your attention.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;



Audit Framework Definitions

- Substantial
- Reasonable
- Partial
- No Assurance

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.
No Assurance	▲ ★ ★ ★	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.

Non-Opinion – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendation are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

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.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

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 & the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor \longleftrightarrow 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
FINAL											
Follow up	IT Hardware Asset Management	Q1	Final	Follow up	0	0	0	0	0	0	
Follow up	Software Asset Management	Q1	Final	Follow up	4	0	0	3	1	0	
Operational Audit	Crematorium	Q1	Final	Partial	12	0	0	5	7	0	
Follow Up	Commercial Rents	Q1	Final	Follow up	3	0	0	2	1	0	
Governance, Fraud and Corruption	Absence Management	Q1	Final	Reasonable	5	0	0	5	0	0	
Governance, Fraud and Corruption	Imprest/Cash Spot Checks	Q1	Final	Partial	5	0	0	4	1	0	
Governance, Fraud and Corruption	Members Expenses	Q1	Final	Reasonable	6	0	0	6	0	0	
Follow up	Housing Voids	Q2	Final	Follow up	5	0	0	5	0	0	
Operational Audit	Licensing	Q2	Final	Reasonable	6	0	0	6	0	0	
ICT	User Management (<i>Starters and Leavers - HR, Facilities, ICT</i>)	Q2	Final	Partial	7	0	0	6	1	0	TDBC Recommendations only
Follow up	Asset Management	Q2	Final	Follow Up	8	0	1	3	4	0	
Governance, Fraud and Corruption	SWO Succession planning (TUPE Transfer and Project Governance)	Q2	Final	Non-Opinion		N/A					
Key Control	Council Tax & NNDR	Q3	Final	Substantial	3	0	0	3	0	0	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ←→ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Governance, Fraud and Corruption	NEW: Building Control Partnership	Q3	Final	Non-Opinion	12	N/A					
Key Control	Housing Benefits	Q3	Final	Substantial	4	0	0	4	0	0	
Key Control	Creditors – Data Analysis	Q3	Final	Non-Opinion	3	0	0	3	0	0	
Key Control	Debtors	Q3	Final	Reasonable	4	0	0	4	0	0	
Key Control	Main Accounting	Q3	Final	Reasonable	5	0	0	5	0	0	
Key Control	Payroll	Q4	Final	Reasonable	3	0	0	2	1	0	
ICT	New Financial System	Q2, Q3, Q4	Final	Non-Opinion	-	-	-	-	-	-	Time as ‘critical friend’ on project.
ICT	SWOne Exit Support/ Advice (New HR & Payroll System)	Q2, Q3, Q4	Final	Non-Opinion	-	-	-	-	-	-	Time as ‘critical friend’ on project.
Operational Audit	Supported Housing (both Extra Care and Sheltered)	Q4	Final	Reasonable	5	0	0	5	0	0	
Operational Audit	NEW: Open Spaces External Works – Charging & Income Collection	Q4	Final	Partial	7	0	0	6	1	0	
DRAFT											
Operational Audit	Capital Programme Approval & Monitoring / linked with Contract monitoring	Q2	Draft	Reasonable							
Key Control	Treasury Management	Q3	Draft	Substantial							
Key Control	Housing Rents	Q4	Discussion Document								

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
IN PROGRESS											
Governance, Fraud and Corruption	Information/Data Security/Data Protection	Q4	In Progress								
DROPPED											
Governance, Fraud and Corruption	DLO Transformation / Relocation Programme	Q4									Replaced by Building Control Partnership work
ICT	Mobile Working (<i>Mobile Devices - end to end</i>)	Q3									Additional time to Finance System.
Contingency	Unallocated (Residual from DLO work)	Q4									Additional time to Finance System.
Operational Audit	Housing - Responsive Maintenance	Q4									Replaced by Open Spaces External Works.
Governance, Fraud and Corruption	Transformational Programme	Q4									Time added to the 2017-18 plan.

Summary of key audit findings on work undertaken since the March 2017 Update

Audit Assignments completed since the March 2017 update:



Summary of Audit Findings and High Priority Service Findings

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

The following information provides a brief summary of each audit review finalised since the last Committee update in March 2017. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review.

Since the March 2017 update there is only one review that returned an adverse audit opinion that I need to bring to your attention. This review is summarised below.

Operational Audits

Operational audits are a detailed evaluation of a Service’s control environment. A risk matrix is devised and controls are tested that mitigate those risks. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Open Spaces External Works – Charging & Income Collection - Partial Assurance

Open Spaces is a part of the DLO responsible for grounds maintenance. They look after the districts formal parks and open spaces along with children’s play areas. Alongside their internal responsibilities, Open Spaces also provide grounds maintenance services to external clients. They can provide these external services across Somerset. The DLO has a target to generate £101,000 external income each year as a contribution to the Council.

Works undertaken by the Open Spaces service are recorded on the DLO’s IT system, Open Contractor and the figures are imported onto the Councils finance system (previously SAP, now e5) once the works are completed.

Audit Assignments completed since the March 2017 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Operational Audits Continued

We were asked by the Assistant Director – Operational Delivery to review charging and income arrangements for external works within Open Spaces.

The objective of the review was to ensure that external works are being charged for correctly and that all income is collected.

The following weaknesses were identified in the current control framework:

- Debts are not chased by the service until they are overdue for sixty days, in addition there is no centralised record of debt recovery action taken to date.
- There is no centralised location for quotes issued meaning that administrative staff cannot locate and view these when required limiting the opportunity to reconcile quotes against invoiced works for completeness and accuracy.
- A high number of credits notes have been raised, the majority of which are due to duplicate invoices being raised. Although prices are recorded in Open Contractor there is currently no interface with the Financial Management System and invoices must be raised manually. There is no check to ensure duplicates are not raised other than the officer checking.
- The methodology for determining pricing does not include any benchmarking to determine how prices compare to other providers.

All recommendations have an agreed action plan in place to ensure areas of weakness are addressed. As this review has returned a partial assurance opinion we will follow up on the areas of weakness in 2017-18 to confirm recommendations have been implemented.