

Taunton Deane Borough Council

Corporate Governance Committee – 21 June 2016

SWAP Internal Audit – Internal Audit Plan 2015/16 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 2015-16 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 2015/16 internal audit plan and significant findings since the previous update in March 2016.

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 2016.
- 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 2015/16 is contained within Appendix A.

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 2015/16 Outturn

Contents

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Internal Audit Plan Progress 2015/2016 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 Audit and Governance Committee at its meeting on March 2015.

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 2015.

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

Internal Audit Plan Progress 2015/2016 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 2015/16. 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. Since the last update in March 2016, nine reviews have been finalised. I am pleased to report that none of these reviews returned an adverse opinion. Therefore there are no significant weaknesses that I need to bring to your attention at this time within **Appendix C**.

Of the work completed I would draw your attention to the follow up work on Business Grants. All recommendations have been implemented to address the weaknesses identified in our quarter one audit. I must stress that as the awarding of business grants was put on hold after our review, whilst we could see the new measures in place and discussed how they would work, we obviously could not assess that these were being undertaken in practice.

As is show in **Appendix B** there are eight reviews not finalised with three at report stage and six being reviewed before the draft report is released. Our priority will be to ensure these are finalised as soon as possible. Any Partial Assurance opinions arising from these outstanding reviews will be shared with members at the next quarterly update meeting.

Internal Audit Plan Progress 2015/2016 Outturn

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



Approved Changes to the Audit Plan

The audit plan for 2015/16 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 2016 committee report update there is one agreed change to the audit plan. The SAP ICT Key Control review has been dropped and the time carried into the 2016-17 plan. This has been dropped as the previous review in this area was finalised in November 2015 and uncertainty around the future use of SAP over the short term.

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.

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.

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.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
FINAL											
Follow Up	Parks & Open Spaces	Q1	Final	Follow up	3	0	0	2	1	0	
Follow Up	Data Transparency	Q1	Final	Follow up	3	0	2	0	1	0	
Governance, Fraud & Corruption, Cross Cutting	Business Continuity	Q1	Final	Reasonable	4	0	0	4	0	0	
Governance, Fraud & Corruption, Cross Cutting	Business Incentive Grants	Q1	Final	Partial	11	0	3	7	1	0	
ICT Audits	Disaster Recovery Audit	Q1	Final	Partial	5	0	0	1	4	0	
Operational Audit	Crematorium	Q1	Final	Non - Opinion	3	0	0	2	1	0	
Operational Audit	Housing Voids	Q1	Final	Partial	17	0	2	9	6	0	
Governance, Fraud & Corruption, Cross Cutting	Declaration of Interests, Gifts and Hospitality & Ethical Standards	Q2	Final	Reasonable	5	0	1	4	0	0	
Governance, Fraud & Corruption, Cross Cutting	Cash & Banking	Q2	Final	Reasonable	22	0	6	16	0	0	
ICT Audits	Information Systems - Property Management	Q2	Final	Non - Opinion	0	0	0	0	0	0	
Operational Audit	Food safety	Q2	Final	Substantial	9	0	2	7	0	0	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Operational Audit	Repair & Renewal Grant (New)	Q3	Final	Non - Opinion	0	0	0	0	0	0	
Key Control	Main Accounting	Q3	Final	Substantial	3	0	2	1	0	0	
Key Control	Council Tax & NNDR	Q3	Final	Substantial	2	0	2	0	0	0	
Key Control	Debtors	Q3	Final	Reasonable	4	0	0	4	0	0	
Key Control	Payroll	Q3	Final	Substantial	1	0	0	1	0	0	
Key Control	Treasury Management	Q3	Final	Substantial	2	0	1	1	0	0	
Follow Up	Business Grants (from follow up contingency)	Q4	Final	Non - Opinion	0	0	0	0	0	0	
Operational Audit	Gas Servicing	Q2	Final	Reasonable	8	0	3	5	0	0	
Key Control	Housing Benefits	Q4	Final	Substantial	0	0	0	0	0	0	
DRAFT											
Operational Audit	DLO Stores	Q2	Draft	Partial	11	0	0	4	7	0	
Key Control	Creditors	Q3	Review	-	-	-	-	-	-	-	
Operational Audit	DLO Operations (NEW)	Q3	Draft	Non - Opinion	14	0	0	14	0	0	
Follow Up (ICT)	Physical and Environmental Controls / Data Centre	Q4	Review	-	-	-	-	-	-	-	
Operational Audit	Deane Help Line	Q4	Review	-	-	-	-	-	-	-	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Operational Audit	Land Charges	Q4	Discussion Document	Partial	7	0	0	5	2	0	
Follow Up (ICT)	Disaster Recovery Follow Up	Q4	Review	-	-	-	-	-	-	-	
Operational Audit	Homelessness	Q4	Review	-	-	-	-	-	-	-	
Key Control	Housing Rents	Q2	Review	-	-	-	-	-	-	-	
DROPPED											
Governance, Fraud & Corruption, Cross Cutting	Transformation Programme	Q3	Dropped - Additional 5 days to DLO Audit to cover additional work - Disposal of redundant material.								
ICT Audits	Information Systems - Finance	Q2	Time carried over to 2016-17 Plan as not now required. 15 days of additional IT audit for TDBC providing a total of 50 IT audit days in 2016-17.								
Operational Audit	Housing - Responsive Maintenance	Q4	Dropped due to 4 additional work areas requested by Terry May. Included in the 2016-17 Audit Plan.								

Schedule of potential significant risks identified from Internal Audit work in the period March to June 2016

Ref	No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action	Manager's Update (Date)
There are no significant findings to bring to the attention of the Audit Committee in this period.								