

South West Audit Partnership

A Report to the Corporate Governance Committee

Taunton Deane Borough Council

Annual Report 2006/2007

EXECUTIVE SUMMARY

Under the Account and Audit Regulations 2003, the Council is required to maintain an adequate and effective system of internal audit of its financial management and system of internal control, in accordance with proper internal audit practices. This report summarises internal audit activity over the 2005/06 financial year.

1. PURPOSE

The Accounts and Audit Regulations (England) 2003 requires public authorities to publish a Statement on Internal Control (SIC).

The Statement is an annual review of the System of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. Standard 9 of the SIC requires "the Head of Internal Audit to include in the annual Internal Audit Report to the authority an opinion on the overall adequacy and effectiveness of the authority's internal control environment, providing details of any weaknesses that qualify this opinion and bringing to the attention of the authority any issues particularly relevant to the preparation of the SIC" – *Meeting the Requirements of the Accounts and Audit Regulations 2003 (CIPFA Publication)*.

The purpose of this report is to satisfy this requirement.

2. THE ROLE OF INTERNAL AUDIT

The Internal Audit service for TDBC is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors. The Partnership is also guided by the Internal Audit Charter approved by the Corporate Governance Committee at its meeting on 25th September 2006.

Internal Audit provides an independent and objective opinion on the authority's control environment by evaluating its effectiveness. Primarily the work of the SWAP includes:

- 4 -Year Plan of Operational Audit Reviews
- Annual Review of Key Financial System Controls (Managed Audits)
- Follow Up Reviews

3. INTERNAL AUDIT WORK PROGRAMME FOR 2006/2007

3.1 OPERATIONAL AUDITS

Operational Audits are a detailed evaluation of the internal control environment that operates within a particular Council service. A risk evaluation matrix is devised and the internal controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated. In total 15

operational audits were planned during 2006/07, however, 2 of these reviews, Waste & Recycling (rescheduled for Quarter 1 of 2007/08) and Land Charges (dropped from the 2006/07 plan) were not completed during the year with the agreement of the Strategic Director.

As part of the Auditor's Opinion, each review is given a 'star' rating offering management the following levels of assurance:

△△△ **Full** - 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.

△△△ **Reasonable** - 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** - 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.

△△△ **None** - 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 normal expectation is for reviewed areas to be assessed as 'Reasonable' and for management to address the issues identified with the aim of moving the next audit assessment towards 'Full' assurance. Where the assessed area falls below 'Reasonable', management should give particular attention to the findings of the review and take the necessary action to improve the internal control environment.

The following is a summary of reviews completed which resulted in a number of actions for improvement:

6 audits were completed and final reports issued:

- ABANDONED VEHICLES - △△△ **Reasonable**
- ASSET MANAGEMENT - △△△ **Reasonable**
- CREDITORS - △△△ **Reasonable**
- CASH & BANK - △△△ **Reasonable**
- CUSTOMER SERVICES - △△△ **Reasonable**
- LICENSING - △△△ **Reasonable**

3 audits are at draft stage:

- TOURISM
- COUNCIL TAX
- CORPORATE POLICY AND PERFORMANCE - (BVPI'S ONLY)

3 audits - testing has been completed:

- STRATEGIC HOUSING
- NNDR
- PAYROLL

1 audit where testing is underway:

- CORPORATE GOVERNANCE

3.2 MANAGED AUDITS

Managed audits (reviews of the Council's key financial systems) are completed to assist the External Auditor in their assessment of the Council's financial control environment. The following reviews have been completed which resulted in a number of actions for improvement:

- CAPITAL ACCOUNTING
- MAIN ACCOUNTING
- HOUSING BENEFITS
- TREASURY MANAGEMENT
- CREDITORS
- DEBTORS
- COUNCIL TAX
- NNDR
- HOUSING RENTS
- PAYROLL

A summary of all actions arising from the Managed Audits has been provided to the Strategic Director and relevant service manager in order that these actions can be monitored through to completion.

3.4 FOLLOW UP REVIEWS

Follow up audits are carried out to assess progress made against agreed actions and areas for improvement from completed reviews. Follow-ups will be completed within 12 months of the original review, 14 follow up reviews were completed during the 2006/07 year:

- CAPITAL ACCOUNTING
- COUNCIL TAX
- CREDITORS
- DEBTORS
- TREASURY MANAGEMENT
- NNDR
- HOUSING BENEFITS
- MAIN ACCOUNTING
- HOUSING RENTS
- PAYROLL
- STREET CLEANSING
- RECRUITMENT & SELECTION
- HOUSING REPAIRS
- CAR PARKS

4. OTHER ACTIVITIES

In addition to the above activities SWAP continue to provide support and advice to management on a wide range of internal control and risk matters. Two specific reviews completed this year were the provision of project assurance for the ISiS project and the audit of the Local Public Service Agreement indicators.

SWAP have provided project assurance for the ISiS project which has included monitoring of actions taken by TDBC to mitigate the key programme risks and have been involved with overseeing the bid evaluation process. SWAP staff have also

carried out substantive testing of key Council performance indicators that TDBC maintained as part of the LPSA targets agreed with central government. The purpose of this exercise was to provide reliable assurance to central government that the indicators reported in support of the LPSA were correctly calculated and recorded.

5. SUMMARY

All of the Operational Audits issued to date have resulted in SWAP being able to provide reasonable assurance that most of the areas reviewed were found to be adequately controlled. Where weaknesses exist, agreed action plans have been drawn up with the cooperation of the Service Manager to address the identified weaknesses.

While the review of the Managed Audits by SWAP did not identify any serious concerns, there were a number agreed improvement actions resulting from the weaknesses identified.

Although not considered to be material concerns the following issues (while in the process of being addressed) are in my opinion significant and therefore worthy of being brought to the attention of the Council:

Quality of systems and procedural documentation:

One theme that emerged in many of the audits covered was either the lack of procedural manuals or the quality and their coverage of key areas of the Council's financial activities. Procedures and documentation must be robust in order that management can assess compliance with the processes undertaken by officers, to ensure that services are being delivered in accordance with defined processes. Management recognise this is an area of weakness and is anticipated that the ISiS project will address this area of weakness.

Main Accounting System:

SWAP's review of the Council's Main Accounting System picked up on the ongoing issues that face the Council in staying with an outdated Financial Management System. The issues raised included the very basic profiling of budgets, the lack of adequate management information available from the current system and the need for system improvements. The Council acknowledges that changes to the current system and reporting facilities are needed and this is recognised as key objective of the ISiS project.

Payroll:

During 2006/07 the Council transferred the processing of its payroll to Somerset County Council. Prior to the transfer there were a number of weaknesses identified within the internal control environment operating within the Council. Although some of the weaknesses have been addressed as a result of the transfer (notably capacity, separation of duties and reliance on key staff) the transfer has highlighted that there are some areas where the responsibility for the operation of the internal control needs to be clarified. Management are aware of the issues and are reviewing the current arrangements.

Quality control checks within the Housing Benefits System:

During the completion of the Housing Benefits audit it was noted that the 4% checking of HB claims had lapsed during 2006/07 due in the main to the impact of the transfer to the new IBS system. Management were aware of the weakness and the intention is for checking to recommence from June 07.

Monitoring of collection rates – Council Tax and NNDR:

During the Council Tax and National Non-Domestic Rates Managed audits it was noted that collection rates had not been reported / monitored during the year. The lack of monitoring was down to the difficulty in extracting the information from the IBS system, management recognise this weakness and have stated that monitoring / reporting will recommence during 2007/08.

Once these areas of weakness have been addressed I will be able to offer management adequate assurance that the main financial system controls are operating adequately. As mentioned above, the Strategic Director has been provided with a summary of the actions arising from the key financial systems and will be monitoring them through to completion.

6. GROUP AUDITOR'S OPINION

Overall and with the exception of the issues raised above, I am able to offer 'Reasonable' assurance that key controls are in place and working well. Where weaknesses have been identified I am satisfied by the management response, in terms of an agreed action plan. I will continue to report to management and Corporate Governance Committee on the progress made against the agreed actions.

7. RECOMMENDATION

The Committee should note the content of this report.

Chris Gunn
Group Auditor
South West Audit Partnership
June 27 2007