

Taunton Deane Borough Council

Corporate Governance Committee – 10 March 2014

Internal Audit Plan Progress 2013-14

Report of the Assistant Director – Corporate Services, Richard Sealy and the Audit Manager, Alastair Woodland.

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

1. Executive Summary

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.

The 2013-14 Annual Audit Plan is on track to provide independent and objective assurance on TDBC's Internal Control Environment. This work will support the Annual Governance Statement.

2. Background

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 September (**Appendix B**).
- 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 (**Appendix A**).

Members will note that where a partial assurance has been awarded, Internal Audit will follow up on the agreed management responses to provide assurance that risk exposure has been reduced.

3. Detailed Update

Please refer to the attached SWAP Progress Report.

4. Finance Comments

There are no specific finance issues relating to this report.

5. Legal Comments

There are no specific legal issues relating to this report.

6. Links to Corporate Aims

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.

7. Environmental Implications

There are no direct implications from this report.

8. Community Safety Implications (if appropriate, such as measures to combat anti-social behaviour)

There are no direct implications from this report.

9. Equalities Impact

There are no direct implications from this report.

10. Risk Management

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. The most significant findings since the last committee report are documented in **Appendix B**.

11. Partnership Implications

There are no direct implications from this report.

12. Recommendations

Members are asked to note progress made in delivery of the 2013/14 internal audit plan and significant findings.

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Taunton Deane Borough Council

Report of Internal Audit Activity, March Update, 2013 - 14

Cont

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SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the PSIAS and the CIPFA Code of Practice for Internal Audit in England and Wales.

Summary

Our audit activity is split between:

- Operational Audit
- Key Control Audit
- Governance, Fraud & Corruption Audit
- IT Audit
- Special Reviews

See Appendix A for individual audits

Role of Internal Audit

The Internal Audit service for Taunton Deane Borough Council is provided by South West Audit Partnership (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 and last reviewed at its meeting on 24th June 2013.

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
- Key Financial Control Reviews
- Cross Cutting Fraud and Governance Reviews
- IT Audit Reviews
- Other Special or Unplanned Reviews

Overview of Internal Audit Activity

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 at its meeting in March 2013.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk. Key Control Audits are undertaken in quarter three of each year and these are planned in conjunction with the Council's External Auditor to assist in their assessment of the Council's financial control environment. This reduces the overall cost of audit to the Council.



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Audit Plan Progress

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

Audit Plan Progress

The schedule provided at [Appendix A](#) contains a list of all audits as agreed in the Annual Audit Plan 2013/14. 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 “control assurance” opinion together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as shown in [Appendix C](#).

Where assignments record that recommendations have been made to reflect that some control weaknesses have been identified as a result of audit work, these are considered to represent a less than significant risk to the Council’s operations. However, in such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. To further assist with this assurance all 4 & 5 priority recommendations will be followed up by internal audit to confirm the weakness has been addressed.

Further, should an audit review identify any significant corporate risk as ‘very high’, as described in [Appendix C](#), these will also be brought to the attention of the Audit Committee.



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Audit Plan Progress

Update 2013-14:

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

Report on Significant Findings

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. I attach as Appendix B, a summary of the agreed actions relating to those reviews completed for 2013/14 that have not been previously reported where the Auditor assessed the priority to be a level 4 (Medium/High) or 5 (High).

Since my December report for 2013/14 there has been one review concluded and assessed as 'Partial' and I include the Auditor's Opinion as follows:

Procurement Cards

Whilst there is no evidence that cards are being misused some essential controls are missing that would provide reasonable assurance that the opportunity for card misuse is reduced; most notably there is no corporate policy or guidance in place, signed agreement forms from card holders on their responsibility for the safe custody of the cards could not be provided and receipts are not always retained for purchases.

There are areas where the introduction of best practice operated by other local authorities and central government departments would enhance the control framework. It was also surprising to find that there was no definitive list of who had a card and at what transaction level. The list to provide the overview had to be pulled together during the audit.



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Non-Opinion Reviews

Taxi Licence Fees

In 2012 an objection to the Audit of the Taunton Deane Borough Council Accounts 2011/12 was received by Grant Thornton, the External Auditors for TDBC. The objection related to the Council's setting of its taxi licence fees as follows;

- (i) the Council has levied licence fees in excess of its own calculation of 'reasonable costs ';* and
- (ii) notwithstanding objection (i) above, the Council's 'reasonable costs' are excessive.*

Following investigation by the External Auditors the following recommendation was made;

Recommendation 1: *Consider the cost and benefits of introducing a system of time recording, or employ a time and motion study, to provide a more robust evidence base for cost apportionment for the purposes of licence fee setting.*

A new approach for the calculation of Licensing Fees has been adopted by the Council. As observed by the External Auditors *'The Council does not have a time recording system and neither has it undertaken a formal Time and Motion study. Instead, the Council has applied "a best recollection and the professional judgement of those involved". We have not, therefore, been able to independently verify the accuracy of the precise time allocations applied by the Council.'*

In response to this SWAP was asked by the Section 151 Officer to conduct a review into the reasonableness of the Licensing Fee Calculations. The Scope of the work was to observe the processes within the Taxi Licensing Fee Construction Model (FCM) in order to provide independent assurance on the accuracy and reasonableness of the stated figures (both salary costs and time for each activity).

Audit Plan Progress

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

A review of the Fee Construction Model (FCM) itself showed that the Excel document used and the formulas contained within it appear reasonable. The cost figures calculated within the Model can be deconstructed and their origins identified and agreed back to salary cost information. It is clear that a great deal of time has been spent developing the Fee Construction Model.

Whilst the time available did not permit all processes to be fully tested the Model is comprehensive, fair and transparent. There were some time variation, both to the benefit of the service user and some to the Authority. As the model breaks processes down into minutes and seconds it is expected that some degree of variation would exist and therefore the model will need moderating as part of the normal review of service activities. We are therefore satisfied that the model, in overall terms, does provide a reasonable basis for calculating the license fees for 2014-15.

Future Planned Work

The audit plan for 2013/14 is detailed in [Appendix A](#). Members will note that there were necessary changes to the plan throughout the year; any changes made have been subject to agreement with the appropriate service manager and the Section 151 Officer.

Conclusions

Steady progress has been made against the 2013/14 plan and we have not identified any significant corporate risks since our last update in December 2013. Overall, on the balance of audits undertaken to date, the internal controls environment appears *Reasonable*.

There has been difficulty in progressing and finalising some of the IT audits involving South West One. This has been escalated and it is anticipated that Data Centre Facilities Management and System Development Life Cycle will be finalised shortly and work will commence on the IT Financial Controls, Incl Access (Key Financial System Audit).

I will continue to update Members on progress against the plan and am confident that reviews currently in progress or draft will be completed, although with some inevitable carry forward into the new financial year.



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Audit Plan 2013

Audit Plan Progress 2013-14

APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
ICT Audits	Data Centre Facilities Management	1	Draft							
Special Review	Contract Benefits- Van Hire	1	Final	Non-Opinion	6	0	0	4	2	0
ICT Audit	System Development Life Cycle	1	Draft							
Operational Audit	Car Park Contract Management	1	Final	Reasonable	2	0	0	2	0	0
Operational Audit	Taunton Deane Partnership's 'Priority Areas Strategy' (PAS) programme	1	Final	Partial	9	0	0	4	5	0
Operational Audit	1. Contract Audit- Spend Analysis	1	Final	Reasonable	2	0	0	2	0	0
Operational Audit	Affordable Housing	1	Final	Substantial	0	0	0	0	0	0
Follow-up	Project Taunton- Follow up	1	Final	Follow-up	0	0	0	0	0	0
Follow-up	Business continuity Arrangements- Follow up	1	Final	Follow-up	4	0	0	0	3	1
Non- Opinion	Taxi Licences	1	Final	Non-Opinion	0	0	0	0	0	0



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Audit Plan 2013

Audit Plan Progress 2013-14

APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
Operational Audit	2. Contract Audit- Pre & Current	1 & 2	In progress							
Governance, Fraud & Corruption	Fighting Fraud Locally	2	Final	Reasonable	6	0	1	3	2	0
ICT Audit	Non-SAP business critical applications-civica	2	Final	Reasonable	8	0	2	5	1	0
Operational Audit	Procurement Cards	2	Final	Partial	6	0	0	4	2	0
Operational Audit	Revs and bens brought in house	2	Final	Non-Opinion	0	0	0	0	0	0
Operational Audit	Community Infrastructure Levy (CIL)	2	Final	Non-Opinion	0	0	0	0	0	0
Follow-up	Equality Impacts on Decisions- Follow-up	2	Final	Follow-up	0	0	0	0	0	0
Follow-up	Data Security Breaches Follow-up	2	Final	Follow-up						
Operational Audit	Audit Universe (New)	2	Drafting							
Governance, Fraud & Corruption	Council Tax Reduction Scheme	3	In progress							
Key Control	Creditors	3	Draft							



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Audit Plan 2013

Audit Plan Progress 2013-14

APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major				
						Recommendation				
						1	2	3	4	5
Key Control	Council Tax & NNDR (Dropped – replaced by Audit Universe)	3	Dropped							
Key Control	Debtor	3	Drafting							
Key Control	Housing Benefits (Dropped – Fleet vehicles and Fuel)	3	Dropped							
Key Control	Main Accounting (Dropped – replaced by Trouble Families)	3	Dropped							
Key Control	Payroll	3	Discussion Document							
Key Control	Capital Accounting	3	Discussion Document							
Key Control	Housing rents	3	Discussion Document							
Key Control	Treasury Management (Dropped – replaced by Taxi Licenses)	3	Dropped							
Governance, Fraud & Corruption	Debt Management	3	In progress							
Follow Up	ICT Strategy – Follow Up	3	Final	Follow-up	8	0	1	3	2	2



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Audit Plan 2013

Audit Plan Progress 2013-14

APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
ICT Audit	IT Financial Controls, Inc Access (Key Financial System Audit)	3								
Follow-up	IS Regulatory Compliance- Follow-up	4	In progress							
Operational Audit	Troubled Families (New)	4	In progress							
Governance, Fraud & Corruption	Home working Arrangements	4	Discussion Document							
ICT Audit	Disaster Recovery Arrangements	4	In progress							
Operational Audit	Imprest Analysis/Cash Handling	4	Final	Reasonable	1	0	0	1	0	0
Operational Audit	DLO Fleet Vehicles, inc fuel check (New)	4	In progress							
Operational Audit	Health & Safety	4	In progress							
Operational Audit	Partnership Arrangement	4	In progress							
Operational Audits	Somerset Waste Partnership Plan contribution	4								
Non-Opinion	West Somerset Council	All								



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High Priority Findings and Recommendations

APPENDIX B

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
Procurement Cards					
There is no training or guidance provided for cardholders before being issued with a purchasing card.		I recommend that the Strategic Finance Officer creates a corporate Purchasing Card Policy. The policy should include the procedures in place for when a card holder changes post or leaves the Authority. The DLO Purchasing Card policy could be used as a template.	Agreed. Policy provided to be tailored to TDBC, approved and circulated for information.	31.3.14	Strategic Finance Officer
Not all the purchasing card holders have records of signed agreements detailing the security arrangements for the purchasing cards.		I recommend that the Strategic Finance Officer ensures that the corporate Purchasing Card Policy details security arrangements for purchasing cards. There should be signed agreements in place for all purchasing card holders confirming they will abide by the policy.	Agreed. Policy provided includes the relevant information and templates that will be utilised.	31.3.14	Strategic Finance Officer



Audit Framework Definitions

Control Assurance Definitions

Appendix C

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.
None	▲☆☆	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.

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.

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.