Taunton Deane Borough Council

Corporate Governance Committee – 19 June 2018

SWAP Internal Audit – Outturn Report 2017/18

This matter is the responsibility of Executive Councillor Andy Sully

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 2017-18 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 2017/18 internal audit plan and significant findings since the previous update in March 2018.

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 2018.

- 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   The Internal Audit Outturn Report for 2017/18 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, SWAP Internal Audit Services.

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   X Quarterly

Twice-yearly   Annually

List of Appendices (delete if not applicable)

Appendix A	SWAP Internal Audit - Outturn Report 2017/18

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Taunton Deane Borough Council

Report of Internal Audit Activity

Outturn Report 2017/18

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Follow Up**
- **Non-Opinion / Advisory Reviews**

Role of Internal Audit

The Internal Audit service for the Taunton Deane Borough Council is provided by SWAP Internal Audit Services 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 20th March 2017.

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
- Follow Up
- Non-Opinion / Advisory 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 and approved by this Committee at its meeting in March 2017. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

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Page 1

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 2017/18. 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.

Overall good progress has been made on the Audit Plan 2017-18. The current position statement can be seen at **Appendix B.**

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 March 2018 update there are two 'Partial Assurance' reviews I need to bring to your attention, these being Creditors and Debtors. I have also provided further details on our Transformation work to date, which will continue into the 2018-19 Audit Plan. I have also provided information on the GDPR preparedness. A verbal update will be given during the meeting. Further details can be found within **Appendix C**.

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Page 2

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 2017/18 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.

There is only one update to inform members of since the March 2018 Update. Additional testing is required on the Disaster Recovery Audit. To accommodate this time has been taken from the Cyber Security Review. Given the limited residual time remaining for the Cyber Security review this time has now been carried over to the 2018-19 plan. Given the competing demands on the IT Resources at this unprecedented time of change, the whole IT Audit Plan for 2018-19 is currently under review to ensure we can provide the necessary assurance where the greatest risks lie. A further update on any changes to the IT Audit Plan will be detailed in the 2018-19 Audit Plan update reports presented to this committee.

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Page 3

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

- **Substantial**
- **Reasonable**
- **Partial**
- **No Assurance**
- **Non-Opinion/Advisory**

Audit Framework Definitions

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/Advisory – 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.

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Page 4

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.

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.

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Page 5

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ⟷ 5 = Major Recommendation					Comments
						1	2	3	4	5	
FINAL											
Operational Audit	Impact of Universal Credit/Welfare Reform	Q1	Final	Reasonable	4	0	0	4	0	0	
Governance, Fraud & Corruption	Compliance with IR35	Q1	Final	Reasonable	4	0	0	4	0	0	
ICT	New TDBC Website post implementation	Q1	Final	Reasonable	4	0	0	4	0	0	
Operational Audit	Use of Non-Contracted Suppliers - DLO	Q1	Final	Partial	8	0	0	6	2	0	
Operational Audit	Car Parking maintenance	Q1	Final	Partial	6	0	0	3	3	0	
Operational Audit	Trade materials	Q1	Final	Advisory	0	0	0	0	0	0	
Operational Audit	Grants - DFG & Other	Q2	Final	Reasonable	7	0	1	6	0	0	
Governance, Fraud & Corruption	Organised Crime - Compliance Checklist	Q2	Final	Reasonable	5	0	0	5	0	0	
Governance, Fraud & Corruption	Use of Consultants	Q2	Final	Reasonable	3	0	0	3	0	0	
Operational Audit	Housing Compliance – Gas Safety	Q2	Final	Partial	8	0	0	7	1	0	
Governance, Fraud & Corruption	New premises - project management	Q2	Final	Advisory	1	0	0	1	0	0	
Governance, Fraud & Corruption	Post Implementation Review - Finance System, HR & Payroll	Q2	Final	Advisory	4 actions to complete						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Recommendation 1 = Minor ↔ 5 = Major					Comments
						1	2	3	4	5	
Follow Up	Building Control follow up	Q2	Final	Follow up	1	0	0	1	0	0	
Follow Up	Crematorium follow up	Q2	Final	Follow up	9	0	0	5	4	0	
Follow Up	User Access Management follow up	Q2	Final	Follow Up	6	0	0	4	2	0	
Key Control	Discretionary Payments - Housing	Q3	Final	Reasonable	3	0	0	2	1	0	
Governance, Fraud & Corruption	Business Rate Avoidance	Q3	Final	Reasonable	2	0	0	2	0	0	
Governance, Fraud & Corruption	Planning Complaint	Q3	Final	Advisory	1	0	0	1	0	0	
Governance, Fraud & Corruption	Council Tax Base Review	Q3	Final	Advisory	1	0	0	0	1	0	
Key Control	Main Accounting – Collection Fund	Q3	Final	Advisory	10	0	0	9	1	0	
Key Control	Creditors	Q3	Final	Partial	9	0	0	9	0	0	
Key Control	Debtors	Q3	Final	Partial	6	0	0	3	3	0	
Governance, Fraud & Corruption	SAP to e5 Debtors Reconciliation	Q4	Final	Advisory	0	0	0	0	0	0	
Governance, Fraud & Corruption	Transformation Programme	Q4	Final	Advisory	0	0	0	0	0	0	
Governance, Fraud & Corruption	Procurement Analysis	Q4	Final	Reasonable	2	0	0	2	0	0	
Governance, Fraud & Corruption	Culture & Ethics Survey	Q4	Final	Advisory	0	0	0	0	0	0	

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Page 7

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ⟷ 5 = Major Recommendation					Comments
						1	2	3	4	5	
Key Control	System Parameter testing Civica	Q4	Final	Advisory	0	0	0	0	0	0	
Governance, Fraud & Corruption	DPA/GDPR Follow Up	Q4	Final	Advisory	15 Key Actions to complete						
DRAFT											
ICT	Disaster Recovery	Q3	Review								
Key Control	Payroll	Q4	Draft	Partial	4	0	0	3	1	0	
DEFERRED											
ICT	Cyber Security	Q3, Q4			Additional time for Disaster Recovery and residual carried over to 2018-19.						
Operational Audit	Business Development - Project & Programme Management	Q4			Replaced by Council Tax Base Review. Rescheduled for quarter 4 2018-19 plan.						
Key Control	Housing Rents Follow Up	Q4			Replaced by Council Tax Base Review. Full review scheduled for quarter 2 of 2018-19 plan.						
Operational Audit	Development Control	Q4			Replaced by Planning Complaint this audit has been dropped. High profile service area to be considered as part of future audit plans under new operating model.						

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Page 8

Audit Assignments completed since the March 2018 update:

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

Summary of Audit Findings

The following information provides a brief summary of each audit review finalised since the last Committee update in March 2018. 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 2018 update there are two Partial Assurance audit opinions that I need to bring to your attention. I have also provided an update on two key areas of interest, the Transformation Project and the preparedness for the General Data Protection Regulations.

Key Control Audits

The Key Control audit process focuses primarily on key risks relating to the organisation's major financial systems. It is essential that all key controls are operating effectively to provide management with the necessary assurance over these systems.

Creditors – Partial Assurance

This audit sought to provide assurance that payments for goods or services were a valid liability for the Council. Testing was undertaken of the controls mitigating the risks of:

1. Invalid payments;
2. Fraudulent activity linked to new or changing supplier data;
3. Non-compliance with regulatory and statutory requirements;
4. The lack of budget monitoring; and
5. Agreed actions not being implemented in a timely manner.

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Page 9

Audit Assignments completed since the March 2018 update:

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

Key Control Audits Continued

It was evident during our testing that the full functionality of the E5 system was yet to be achieved. During testing, one system weakness identified was within the reporting functionality which was still being developed. A limited number of reports were available for good management information and to support our audit. Reports to support the service in managing the creditors process were still in development. There were also some areas where we could only complete limited testing due to limited reporting data, which contributed to the Partial assurance opinion.

One example where reports were having an impact on service delivery was in 'exception reporting' for each payment run to help identify high risk payments for review. The Principle Finance Officer was completing a manual check on all payments in the payment run as part of her validation process. Testing also identified that there are weaknesses around the approval process for DLO invoices as these were processed on the Open Contractor system and imported into E5 for payment. This meant they were not processed with the same level of controls for authorisation and could be authorise by officers who did not have the delegated authority to approve the invoice.

Debtors – Partial Assurance

During this audit we sought to provide assurance that key system controls were operating effectively and that fraud, error or corruption was minimised. Our testing focused on controls mitigating the risks:

1. income/sundry debtors not being reconciled to the general ledger
2. cash receipting not being reconciled to the debtors system
3. arrears not being periodically reviewed
4. income not being monitored against budget forecasts
5. the opportunity for fraud existing and
6. previous audit recommendations not being implemented.

Audit Assignments completed since the March 2018 update:

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

Key Control Audits Continued

Weaknesses identified within this audit were to some extent the result of the e5 implementation whereby there had been a number of delays in implementing the full control framework for debt management at Taunton Deane. It was evident from our testing that the system was still not fully implemented. However, it was also clear that progress had been made since the system was first rolled out. Most significant of our findings were that there was no periodic reconciliation between the General Ledger and the Debtors System and a lack of debts reports produced within e5.

Governance, Fraud & Corruption

Governance, Fraud and Corruption Audits focus primarily on 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 these reviews are often conducted across multiple client sites.

Transformation - Advisory

In agreement with the Council's Section 151 Officer, SWAP have been asked to review and report on key areas of the transformation process in the capacity of critical friends. Our time for 2017-18 will continue into 2018-19 and is focusing on the follow key areas:

- Strategic Framework (Governance and delivery of key Transformation Themes)
- New Council Governance
- Business Process Re-engineering
- Benefits Realisation Management

Audit Assignments completed since the March 2018 update:

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

Governance, Fraud & Corruption Continued

Strategic Framework and New Council Governance

Work is about to commence on the New Council. Work will later commence on the Strategic Framework. With regards to the former our remit will be to act as a critical friend on the project and to ensure all key aspects are complete. Focusing upon the latter we have been asked to provide general support, guidance and assurance that all key policies and strategies are in place for the new authority.

Business Process Re-engineering

We have covered the overall governance framework for Business Process Re-engineering and will be providing further work during 2018-19 looking at specific high-risk services and offering advice and guidance on areas that require greater control or could have a reduction in control. We are looking to start this work on or around July/August 2018.

For the governance work we have undertaken we examined the following risk:

The Business Process Re-engineering fails to address inefficient business processes and reduce organisational costs resulting in financial burden, reputational damage and legal recourse

We have reviewed the following key controls that mitigate the above risk:

1. The Councils have documented their vision and design principles;
2. The Councils have communicated to staff and stakeholders how it will change;
3. Information systems and technological capabilities match the desired outcomes of the transformation process;

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Audit Assignments completed since the March 2018 update:

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

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Governance, Fraud & Corruption Continued

4. Key processes are identified, weaknesses acknowledged and opportunities for improvement documented;
5. Progress is monitored and reported on to ensure delivery within defined timescales;
6. New or revised systems and processes are tested prior to implementation.

All controls were found to be working satisfactorily.

Benefits Realisation Management (BRM)

Our work in this area is focusing on the following risk:

The BRM Framework fails to identify, execute and sustain benefits, resulting in a hefty financial burden being placed upon the Council and general public, reputational damage and possible legal recourse.

We are in the process of reviewing the following key controls that mitigate the above risk:

1. Identify Benefits: The BRM Framework identifies whether the project can provide the intended results.
2. Execute Benefits: The BRM Framework minimises the risks to future benefits and maximises the opportunity to gain additional benefits.
3. Sustain Benefits: The BRM Framework shows how the project will continue to create value.

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Audit Assignments completed since the March 2018 update:

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

Governance, Fraud & Corruption Continued

DPA Follow up - & GDPR Preparedness - Advisory

In the Data Protection audit report issued in August 2017 we offered partial assurance. A follow up audit was undertaken in March 2018 to assess progress made. Risk 1 relates to the original weaknesses against the Data Protection Act and Risk 2 relates the preparatory work being undertaken for the General Data Protection Regulations. The outstanding actions at the end of March were:

Risk 1:
Personal information captured and handled by the Council is not accurate, relevant or secure resulting in a serious breach of legislation and possible enforcement action taken by the ICO.

	Complete	In Progress	Not Started	Not Due
Priority 4	-	-	-	-
Priority 3	One	Six		
Priority 2	-	-	-	-

Actions still outstanding are:

- Data Protection modules being made mandatory for all employees
- All forms to include privacy notices; Direction to the privacy statement on websites
- Staff awareness of statutory timescales for responding to SARs
- Staff awareness of GDPR accuracy and disposal responsibilities and spot checks
- Data Protection Guidelines to be updated in line with GDPR requirements
- Procedure to implement PIAs to be implemented.

(Note a number of these actions also relate to GDPR – see risk 2 below)

Audit Assignments completed since the March 2018 update:

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

Governance, Fraud & Corruption Continued

Risk 2:
The Council is not compliant with the General Data Protection Regulations when it comes into force on the 25 May 2018 leading to the risk of financial and/or reputation damage.

	Complete	In Progress	Not Started	Not Due
Action	Three	Nine		

Actions still outstanding are:

- Data protection/information security policies are updated in-line with GDPR
- Staff/Member awareness training to be provided
- Privacy notices to be reviewed to ensure they are GDPR compliant
- GDPR systems and procedures to be reviewed in line with GDPE including SARs
- Formal assignment of responsibility for SARs; Officers to be made aware of time limit
- Review and documentation of data processing across the Councils
- Councils to review how consent is sought
- Councils to ensure policies and procedures are updated in line with GDPR
- Assess situations where a Data Privacy Impact Assessment is required

At the time of undertaking our work there were approximately 8 weeks until the 25 of May Deadline. We are aware of a number of actions programmed to happen during April and May and a verbal update will be provided at the June Audit Committee.

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