

Taunton Deane Borough Council

CORPORATE GOVERNANCE COMMITTEE 24th May 2010

Internal Audit – Annual Opinion Report 2009/10

Report of the Group Auditor – Chris Gunn - (South West Audit Partnership)

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

1. Executive Summary

The Accounts and Audit Regulations (England) 2003 requires public authorities to publish an Annual Governance Statement (AGS).

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. Guidance from the CIPFA Finance Advisory Network states that “the Head of Internal Audit should provide a written annual report to those charged with governance timed to support the Annual Governance Statement”. – *Meeting the Requirements of the Accounts and Audit Regulations 2003, Incorporating Accounts and Audit (Amendment)(England) Regulations 2006 (IPF Publication)*.

The same reports states that the annual report from the Head of Internal Audit should:

- include an opinion on the overall adequacy and effectiveness of the organisation’s risk management systems and internal control environment
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement.

2. Background

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 which is reviewed annually and the CIPFA Code of Practice for Internal Audit in Local Government. Internal Audit provides an independent and objective opinion on the authority's control environment by evaluating its effectiveness. Primarily the work of the Unit includes the following annual reviews:

- Operational and IT Audit Reviews
- Governance, Fraud and Corruption Reviews
- Key Financial System Controls

The audit plan for 2009/10 was presented to the Scrutiny Committee on 16th March 2009.

3. Audits Completed

3.1 Operational Audits - Operational audits are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

For Operational Audits SWAP aim to provide management and Members with a level of assurance on the robustness of the internal control environment. The following categories of assurance have been agreed:

| | |
|---|--|
| <p>▲ ★★★ Comprehensive</p> | <p>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.</p> |
| <p>▲ ★★ ★ Reasonable Assurance</p> | <p>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.</p> |
| <p>▲ ★ ★ ★ Partial Assurance</p> | <p>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.</p> |
| <p>▲ ★ ★ ★ No Assurance</p> | <p>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.</p> |

Operational audits completed by SWAP during the period April 2009 to April 2010 and previously reported to Committee are as follows:

| Audit Area | Audit Opinion |
|--------------------------------|---|
| Building Control | Deferred |
| Car Parks | ▲☆☆☆ Partial |
| CCTV | ▲★★★★ Comprehensive |
| Corporate Policy | Deferred |
| Food Safety | ▲★★★★ Comprehensive |
| Housing Rents | ▲☆☆☆ Partial |
| Officers Claims and Allowances | ▲☆☆☆ Partial |
| Planning Policy | Non-Opinion |
| Streetscene | ▲☆☆☆ Partial |
| Pest Control | ▲☆☆☆ Partial |
| VAT | Being undertaken 1 st quarter 2010 |

The reviews of Building Control and Corporate Policy were deferred from the plan as a result of a vacancy that the Partnership was carrying throughout most of the year and additional work that was required on a special investigation.

For the following two operational audits, testing has been completed and a draft reports issued for management consideration, I have included the Auditor's initial assessment which may be subject to change:

| Audit Area | Audit Opinion |
|---------------------------|----------------------------|
| Asset Management | ▲☆☆☆ Partial |
| Creditors | ▲☆☆☆ Partial |
| Leisure and Arts Services | ▲★★★★ Comprehensive |

3.2 Information System Audits - IS audits are completed to provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given. The following IS audits were in the plan for 2009/10:

| Audit Area | Audit Opinion |
|---|---------------|
| IT Strategy | Deferred |
| Corporate Information Security Controls | Non-Opinion |

3.3 Governance, Fraud and Corruption Reviews – This year, for the first time, we introduced a new specialist area of Governance, Fraud and Corruption. These reviews focus on the key controls in the areas of Governance or activities where it is perceived there is greater opportunity for Fraud or Corruption. As the focus of these reviews is limited, we agreed with

Management that we would not provide an opinion against these reviews. The following reviews of this type were completed:

| Audit Area | Audit Opinion |
|----------------------------------|--------------------------|
| Absence Management | ▲ ★★ ★ Reasonable |
| Business Continuity | ▲ ★★ ★ Partial |
| Data Quality (PI's) | Non-Opinion |
| Fees and Charges | ▲ ★★ ★ Reasonable |
| Gifts and Hospitality | ▲ ★★ ★ Partial |
| Health and Safety (lone working) | ▲ ★★ ★ Reasonable |
| Income Collection | ▲ ★★ ★ Partial |
| Information Governance | ▲ ★★ ★ Reasonable |
| Partnership Arrangements | Non-Opinion |
| Performance (service planning) | Deferred |
| Procurement | Deferred |
| Risk Management | ▲ ★★ ★ Reasonable |

The reviews covering Performance (service planning) and Procurement were deferred in agreement with Management as additional resource was put into the work the partnership undertook on auditing SAP.

Non-Opinion reports, occasionally, when management perceive a potential area of weakness, they will request Internal Audit to undertake a review to provide recommendations for improvement. Where this process is followed, Internal Audit is not required to provide an opinion, some of the reports brought to member's attention within this report are non-opinion reviews.

- 3.4 Managed Audits –The Managed Audit process focuses primarily on key risks relating to the Council's major financial systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance.

Managed audits completed by SWAP during the period April 2009 to March 2010 and previously reported to Committee are as follows:

| Review Area | Report Status |
|---------------------|--------------------------|
| Capital Accounting | ▲ ★★ ★ Reasonable |
| Housing Benefits | ▲ ★★ ★ Reasonable |
| Main Accounting | ▲ ★★ ★ Partial |
| Payroll | ▲ ★★ ★ Partial |
| Treasury Management | ▲ ★★ ★ Partial |
| Council Tax / NNDR | ▲ ★★ ★ Reasonable |

For the following managed audit, all testing has been completed and a draft report has been issued for management consideration, I have included the Auditor's initial assessment which may be subject to change:

| Audit Area | Audit Opinion |
|-------------------|-----------------------|
| Debtors | ▲ ★★ ★ Partial |

3.5 **SWAP - Performance**

The past year has been a busy time for SWAP and with the approval of its Management Board has seen significant growth in the Partnership. Since September 2009 the Partnership was joined by the Forest of Dean District Council in Gloucestershire. Effective from 1st April 2010, the Partnership was also joined by Dorset County Council.

With regards to the 2009/10 Annual Plan for Taunton Deane Borough Council, there were some audits that were deferred with the agreement of management, in most cases these were replaced with other reviews / additional work outside of the original audit plan. SWAP achieved 92% of the Annual Audit Plan. Any outstanding audits will be completed before the end of June 2010.

3.6 **Group Auditor's Opinion**

Out of the ten operational audits, 7 were given only partial assurance. Although I am encouraged by management's response to the findings and agreed action plans, this is a departure from previous years and can be put down to the Council's focus on issues surrounding the implementation of SAP.

Staff across the Council have experienced problems with using elements of the SAP system. This has led to the Council having to work around the system and put a great deal of time and effort in trying to cope with the work arounds, which has caused major disruption in some areas and had an adverse impact on the audit opinions given to some operation reviews.

Car parks is an example of one of those operational reviews, although the service is operating well concerns during the early part of year over the effectiveness of budget monitoring led to an adverse audit opinion. Although generally at a service level the operational reviews undertaken by Internal Audit identified few weaknesses the one overriding theme that emerged was that of staff and managers lack of confidence in SAP, this was particularly noticeable in the areas of budget monitoring. The problems the Council experienced during the implementation of SAP in respect of the payment of invoices, the raising of and collection of monies owed to the Council have had a significant effect on services.

However, the Internal auditors were pleased to find that the Council has been actively monitoring the SAP issues through to completion and that managers have already taken action to deal with these issues or have agreed action plans timetabling improvements to the Council's internal control framework. The auditors were also pleased to see that the Council has been open with staff surrounding these issues ensuring that confidence in the use of the system can be restored.

In view of the problems the Council has experienced in the implementation of SAP I am only able to offer 'Partial' Assurance that the systems for internal controls are in place and working well for those services reviewed.

4. Finance Comments

N/a

5. Legal Comments

N/a

6. Links to Corporate Aims

Internal Audit's role is to assure Members and managers that adequate controls are in place and to issue reports and recommendations to address weaknesses in internal control. The Corporate Governance Committee has a key role to play in monitoring the Council's Corporate Governance arrangements. CiPFA defines part of its core function as including the review of summary internal audit reports and the main issues arising, and seeking assurance that action has been taken where necessary. This contributes to the Corporate Health priority, which underpins all the Council's priorities.

7. Environmental and Community Safety Implications

N/a

8. Equalities Impact

N/a

9. Risk Management

N/a

10. Partnership Implications

N/a

11. Recommendations

The Committee should note the content of this report.

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