

TAUNTON DEANE BOROUGH COUNCIL**CORPORATE GOVERNANCE COMMITTEE 18th May 2009****Annual Report 2008/2009**

REPORT OF THE GROUP AUDITOR (South West Audit Partnership) This matter is the responsibility of Councillor Henley, the Leader of the Council.

1. PURPOSE

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. 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 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:

- 4 -Year Plan of Operational Audit Reviews
- Annual Review of Key Financial System Controls

3. INTERNAL AUDIT WORK PROGRAMME FOR 2008/2009

3.1 OPERATIONAL AUDITS

Operational Audits are a detailed evaluation of a service's 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. In total 14 operational audits were planned, however, 3 of these reviews were not completed and with the approval of the Head of Financial Services, 1 review has been rescheduled for 2008/09. A further 3 Audits were completed from the previous year.

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

▲★★★ **Comprehensive** - 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** - Generally risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

▲★★★ **No** - 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.

Where low to medium control or administrative weaknesses are identified, normal expectation is for reviewed areas to be assessed into the 'Reasonable' category of assurance. However, where the assessed area falls below 'Reasonable', management is expected to address the risks identified as a matter of priority and monitor their progress against the agreed action plan.

The following is a summary of the reviews. Those completed at least to draft stage have resulted in 139 agreed actions for improvement:

1 audit was completed from the previous year:

- Housing Repairs (13) - ▲★★★ **Reasonable**

6 audits were completed and final reports issued:

- COUNCIL TAX (15) - ▲★★★ **Reasonable**
- ECONOMIC DEVELOPMENT (18) - ▲★★★ **Partial**
- HOUSING SALES (1) - ▲★★★ **Comprehensive**
- INSURANCES (12) - ▲★★★ **Partial**
- STORES (11) - ▲★★★ **Reasonable**
- TREASURY MANAGEMENT (17) ▲★★★ **Partial**

8 audits are at draft stage pending client approval:

- DEVELOPMENT CONTROL (6) - ▲★★★ **Reasonable**
- HOMELESSNESS (8) - ▲★★★ **Reasonable**
- PAYROLL (5) - ▲★★★ **Reasonable**

- PROCUREMENT (11) - ▲★☆☆ **Partial**
- TRANSPORT POLICY (3) - ▲★★★ **Reasonable**
- IS – DISASTER RECOVERY (16) - ▲★☆☆ **Partial**
- IS – SOCIAL NETWORKING (3) - ▲★★★ **Reasonable**
- Corporate Information Security – Non Opinion

For the remaining audit, testing is being finalised and a draft report will be issued shortly:

- PARTNERSHIP ARRANGEMENTS

Corporate Policy & Performance was not completed from the plan with agreement of management and will be rolled forward into the 2009/10 audit plan.

3.2 MANAGED AUDITS

Managed audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. In addition the following reviews have been completed which resulted in 40 agreed actions for improvement:

- CAPITAL ACCOUNTING (5)
- CREDITORS (8)
- DEBTORS (6)
- HOUSING BENEFITS (4)
- HOUSING RENTS (5)
- MAIN ACCOUNTING (5)
- NNDR (7)

The External Auditors are likely to focus on these weaknesses when they carry out their work to sign off the Council's final accounts. Summaries of all actions arising from the Managed Audits have been provided to the Strategic Director who will ensure that Council Managers monitor these through to completion. However, it should be noted that the weaknesses identified are mainly of an administrative nature. In the case of NNDR, the risks centred on a lack of supervisory review. On the whole I am able to offer reasonable assurance that key financial controls are in place and working as intended.

4. OTHER ACTIVITIES

In addition to the above activities Internal Audit continue to provide support and advice to management on a wide range of internal control and risk matters including the facilitation of ad-hoc risk sessions. In addition the Group Auditor acts as the Data Protection Officer, providing necessary advice and dealing with Information Management issues. The Group Auditor also acts as the Key Contact for the National Fraud Initiative and coordinates the Council's response.

5. SWAP - PERFORMANCE

In November 2008 SWAP expanded to include Weymouth and Portland Borough Council and West Dorset District Council. Work was also undertaken for Forest of Dean District Council and further work is ongoing. Performance standards are maintained across the partnership and in 2008/09 SWAP are introducing a new web based auditing system (MKInsight) to improve management information and increase the flexibility of its staff.

With regards to TDBC on the plan for 2008/09 performance was as follows:

| | |
|--|--------------------|
| Operational Audits completed in year compared to the plan: | 14 out of 16 (88%) |
| Number of actions for improvements agreed by managers: | 126 |

| | |
|--|-------------------|
| Managed Audits completed in year compared to plan: | 8 out of 8 (100%) |
| Number of actions for improvements agreed by managers: | 40 |

6. TDBC – SUMMARY OF ACITVITY

Compared to the audit reviews from last year, there has been a decline in the number of services receiving a reasonable assurance with five services being given “partial” assurance.

For all of the reviews an agreed action plan has been drawn up with the cooperation of the service management to address identified control weaknesses.

The managed audits of the key financial systems did not identify any serious concerns. Although there were 40 agreed actions resulting from these reviews they were of an administrative nature and the findings would not have had an impact on the Council’s final accounts. The Strategic Director has been provided with records of the 40 actions and has agreed to monitor progress through to completion.

The areas of particular concern were:

Economic Development - The opinion has been graded as partial based upon the evidence examined at the time of the audit. However, I can now affirm from information provided that there has been a significant review completed in respect of the performance of the service by the new manager and service plans have been agreed and put in place that will re-establish the role and function of the Economic Development service. At the time of the audit there were significant weaknesses identified in the areas of keeping the Council’s website up to date, the lack of legal agreements in place covering Into Somerset and the Somerset Tourism Partnership and lack of evidence in the form of assessments required to secure LABGI funding.

Insurances – At the time of the audit the Insurance Officer had only been in post for less than a year, much of her time and resource has been dedicated to preparing information papers for the tender exercise as well as dealing with new and existing claims. Management have been receptive to all the issues raised and it is anticipated that the Insurance Officer will be able to dedicate time to addressing the issues raised in the audit. The main areas of concern identified were poor record keeping and retention of evidence and processes required to be able to demonstrate a complete audit trail from notification of incidents through to claim settlement. It is noted that as a result of the changeover of insurance providers the administration of the insurance function and the general awareness of the service amongst Council managers has improved.

Treasury Management – Although it is worth noting that despite some organisations potentially loosing capital during the ongoing credit crisis, Taunton Deane’s prudent approach has meant that all of it’s investments have been protected. Although the key documents required by the regulations were all found to be in place and Treasury Management is regularly monitored through reports to the Executive as well as through performance indicators within the Southwest One contract, the loss of the Principal Accountant has affected the delivery of some aspects of the service and there are

instances where audit trail and documentation held needs to be improved. Weaknesses included the requirement to review the Council's Treasury Management Policy which should include the split of responsibilities across the Council and Southwest One and the new staffing arrangements; lack of evidence to support why investment decisions are taken and the lack of a regular reconciliation of the investment records to the main accounting system.

Procurement – The audit focussed on how the Council has historically operated in relation to procuring goods and services. It was appreciated during the audit that the Council is going through a period of radical change and many of the required policies and processes that were either missing, out of date or not being followed have been put 'on hold' until the new Strategic Procurement Service and SAP are operational. The audit revealed that throughout the Council there are varied levels of knowledge including in some areas little understanding of the wider issues surrounding procurement. From speaking to a sample of staff across all services it was clear procurement processes were inconsistent.

However, management are confident that the successful implementation of SAP along with awareness and training sessions for staff on procurement will address many of the issues raised and ensure the Council can meet its Corporate objectives on procurement in the future.

Disaster Recovery Planning – Although the Council has in place a contract with an external data recovery contractor it was established that there has been no business impact review undertaken by the authority to assess the impact that the loss of IT systems would have on the authority as a whole. The Council although having some procedures in place does not have a formalised Disaster Recovery Plan and although back-up tapes are tested and restored there has never been a formal test of any disaster recovery arrangements.

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 process mapping exercise being undertaken as part of the Southwest One and the change to SAP will help to address this area of weakness.

Main Accounting System:

SWAP's review of the Council's Main Accounting System picked up on the ongoing issue that faces 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 will be addressed as part of the implementation of SAP.

7. TDBC - 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.

For those reviews where concerns have been raised, I am confident that Service Managers and the Corporate Management Team have these on their 'radar' and are monitoring progress to a satisfactory conclusion.

The key financial systems in the main have again been found to be operating effectively and for those actions agreed, the Strategic Director has been provided with records of the 40 actions and has agreed to monitor progress through to completion.

Recommendation

The Committee should note the content of this report.

Contact Officer:-

Chris Gunn - Group Auditor – South West Audit Partnership
01823 356417 chris.gunn@southwestaudit.gov.uk