

South West Audit Partnership

A Report to the Corporate Governance Committee

Annual Report 2007/2008

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. Following a favourable triennial review by the Audit Commission the Charter was updated approved by the Corporate Governance Committee at its meeting on 24 September 2007.

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 2007/2008

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:

▲★★★★ **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** - 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.

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 84 agreed actions for improvement:

3 audits were completed from the previous year:

- CORPORATE POLICY AND PERFORMANCE - (BVPI'S ONLY)
- COUNCIL TAX (7) - ▲★★★ **Reasonable**
- NATIONAL NON-DOMESTIC RATES (2) - ▲★★★ **Reasonable**

7 audits were completed and final reports issued:

- FINANCIAL MANAGEMENT (5) - ▲★★★ **Reasonable**
- HEALTH AND SAFETY AT WORK (14) - ▲★★★ **Reasonable**
- HOUSING RENTS (5) - ▲★★★ **Partial**
- REGISTER OF ELECTORS (6) - ▲★★★ **Reasonable**
- RISK MANAGEMENT (13) - ▲★★★ **Partial**
- TRAINING AND DEVELOPMENT (3) - ▲★★★ **Reasonable**
- WASTE AND RECYCLING (0) - ▲★★★ **Reasonable**

4 audits are at draft stage:

- DEMOCRATIC SERVICES (6) - ▲★★★ Reasonable
- HOUSING BENEFITS (10) - ▲★★★ Reasonable
- HOUSING BENEFIT FRAUD (6) - ▲★★★ Reasonable
- RENOVATION GRANTS (7) - ▲★★★ Reasonable

For the following 2 audits, testing has been completed and a draft report will be issued shortly:

- CEMETERY AND CREMATORIUM
- HOUSING REPAIRS

Housing and Homelessness was not completed from the plan with agreement of management.

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 41 agreed actions for improvement:

- CAPITAL ACCOUNTING (2)
- PAYROLL (7)
- TREASURY MANAGEMENT (0)
- CREDITORS (9)
- DEBTORS (6)
- COUNCIL TAX (6)
- NNDR (6)
- SYSTEM ACCESS AND BACKUPS (5)

The External Auditors are likely to focus on these weaknesses when they carry out their work to sign off the Council's final accounts. Therefore a summary of all actions arising from the Managed Audits has been provided to the Head of Financial Services who has undertaken to 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

A partnership review of Sickness was performed which led to an opportunity to share best practice across the County.

Management also requested a review of Concessionary Bus Fares, which again was completed on a partnership basis.

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 2007 SWAP expanded to include Sedgemoor District Council (July 2007) and Somerset County Council (October 2007), meaning that it now covers all five Somerset Districts and the County Council. 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 2007/08 performance was as follows:

Operational Audits completed in year compared to the plan:	13 out of 14 (93%)
Number of actions for improvements agreed by managers:	84
Managed Audits completed in year compared to plan:	8 out of 8 (100%)
Number of actions for improvements agreed by managers:	41
Additional reviews completed not in plan:	2

6. TDBC – SUMMARY OF ACITVITY

Compared to the audit reviews from last year, there has been a slight decline in the number of services receiving a reasonable assurance and two services 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 41 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 a record of the 41 actions and has agreed to monitor progress through to completion.

The areas of particular concern were:

Risk Management – The auditor’s opinion of partial assurance was summarised as follows:

“Most of the areas reviewed were not found to be adequately controlled. Generally the Council’s Risk Management arrangements are not well managed and require the introduction or improvement of internal controls to ensure the achievement of objectives. Although the Council has a developed Risk Management Strategy and many Council staff are aware of Risk Management the Council has lost momentum due to a number of significant issues it has dealt with culminating in a major restructuring. As a result, the risk management process has stalled and the objectives of the Strategy are not being achieved. The matters raised within this report have been recognised by management and a management action plan agreed that will take stock and re-launch Risk Management within the Council.”

Housing Rents - The auditor’s opinion of partial assurance was summarised as follows:

“Although many of the areas tested were found to be well controlled there were some significant weaknesses including tenancy post inspection visits and the Council’s poor performance in the collection of Housing Rent arrears. Although performance had stabilised during 2006/07 it has fallen during the first quarter of 2007/08. The collection

of Housing Rents is fundamental in the provision of the service, it is hoped that once the implementation of the new Academy System has been concluded management will be able to refocus their efforts on the collection of arrears.”

It has been noted that since the audit has been completed performance has improved with the collection for the 4th quarter of 2007/08 exceeding the target. 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 process mapping exercise being undertaken as part of the Southwest One 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.

Payroll:

Through the audit review, it has been established that the majority of key controls are operating as expected and as such Management and Staff should be assured that overall, the Payroll System appears to be adequately controlled with improvement on the previous years' review. However, authorisation is a fundamental control for payroll and clarity over this area needs to be resolved including the use of email.

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.

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. I will continue to report to management and Corporate Governance Committee on the progress made against the agreed actions.

Chris Gunn
Group Auditor
June 2008