

# TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 15<sup>th</sup> March 2010

## INTERNAL AUDIT PLAN – PROGRESS REVIEW

### REPORT OF THE GROUP AUDITOR (South West Audit Partnership)

This matter is the responsibility of Councillor Henley, the Leader of the Council.

#### EXECUTIVE SUMMARY

This report highlights significant findings and recommendations that have occurred since the Committee last considered the findings of Internal Audit reports in December 2009.

#### 1. Purpose of Report

To provide members with an update on the activities of the Internal Audit team for the period January to March 2010.

#### 2. Work undertaken by Internal Audit January to March 2010

**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>▲☆☆☆<br/><b>Comprehensive Assurance</b></p> | <p>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.</p>                            |
| <p>▲★★★<br/><b>Reasonable Assurance</b></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>▲★☆☆<br/><b>Partial Assurance</b></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>▲★★★<br/><b>No Assurance</b></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>                     |

The following operational audit has been finalised since the Committee last met in December 2009 as below:-

| <b>Audit area</b>                             | <b>Audit Opinion</b>                   |
|---|--|
| <b>Operational Audits</b>                     |  |
| Housing Rents                                 | ▲ ★ ★ ★ <b>Partial Assurance</b>       |
| Officers and Members<br>Claims and Allowances | ▲ ★ ★ ★ <b>Partial Assurance</b>       |
| Partnership Arrangements                      | Non-Opinion                            |
|   |  |
| <b>Governance Audits</b>                      |  |
| Risk Management                               | ▲ ★ ★ ★<br><b>Reasonable Assurance</b> |
|   | ▲ ★ ★ ★ <b>Partial Assurance</b>       |
| <b>Managed Audits</b>                         |  |
| Treasury Management                           | ▲ ★ ★ ★ <b>Partial Assurance</b>       |

## **Housing Rents**

In the 2009-2010 financial year, two major issues have impacted on the delivery of the Housing Rents Service, as follows:-

- There have been major problems with cash postings to the Rents system associated with the introduction of the new financial system, SAP, in April 2009. There have been instances of the same batch of payments being posted to individual rent accounts two or more times. This problem has now been resolved, and during this review testing of account balances and the processes put in place to identify any re-occurrence was performed and found to be satisfactory. Because of the multiple postings, there was some doubt on the accuracy on the system rent account balances, and no recovery action was performed whilst the issues were being resolved.
- At the time of testing when the audit was completed (January 2010) there had been no recovery action on former tenant arrears. The Rent Recovery and Void Manager advised me that no sundry debtor accounts have been raised to recover outstanding rent balances on former tenants account since the SAP system was introduced at the start of the current financial year. This is because the former sundry debtor system is no longer in use and the SAP system will not be used for these invoices. Since testing was completed the Academy system has been prepared and is now being used to manage these debts and recovery action has now started.

## **Officers and Members Claims and Allowances**

Having conducted the audit I am satisfied that the process of inputting data on to the system is robust and that payment deadlines are strictly adhered to, there were however some weaknesses in the system of internal control as follows:-

- Flaws in the authorisation of payments with approximately a quarter of all sampled claims being signed by officers not on the authorised signatory list; although I am satisfied that these officers were of sufficient seniority to do so. Management have agreed to update the list by 31 March 2010 and ensure that it is reviewed every 6 months.
- There is no formal process in place to verify that staff using their car for business purposes have the appropriate car insurance cover. The retained HR Manager will seek to agree a process for SW1 to undertake these tasks on an on-going basis, deadline 31<sup>st</sup> March 2010.
- There is no formal sign off process in place for system parameter changes on the SAP system (for example what the rates allocated to mileage are). It has been agreed that responsibility for system parameter changes on SAP are the responsibility of R A Ellins, SWOne and approval for change will be given by the Retained HR Manager following request from SWOne, to take effect from 1<sup>st</sup> April 2010.

## **Partnership Arrangements**

At the start of the audit a summary of all current, significant partnerships operating within the authority was not readily available. The lack of a list of partnerships suggests that the establishment and participation in 'partnership' arrangements is not managed corporately within the organisation. This lack of corporate management means that time and resources can be made available to 'partnership' arrangements that may not be approved or may conflict with the authority's wider objectives and interests.

It was also found that the Council does not have any policies or guidelines that give members or officers advice on minimum standards or expectations that should be fulfilled. While there is no clarity over the authority's definition of partnerships there can be no clarity of the expectations of members and officers for ensuring that the authority's interests are protected.

This review considered operation of each of the partnerships identified over the following headings:

- Governance
- Decision making

- Standards of conduct
- Risk management
- Performance management
- Financial arrangements
- Legal arrangements
- IT arrangements
- Appointment of partnership staff

Findings varied across the partnerships but it is fair to say that deficiencies were found in the majority of the partnerships over a number of the headings.

We have discussed the findings of the report with the Strategic Director and have been pleased with the positive feedback that we have received. An action plan has agreed and the Council's Management Team have considered the report and recorded those actions within the Council's Corporate Governance Action plan.

## **Governance Audits**

### **Risk Management**

We observed that the framework and policies set out to guide the identification and control of risks has been developed. These documents have recently been reviewed and refreshed. This process of review and refinement appears to have been in transition for a while and we understand the good reasons for this. We would suggest the challenge now for management is to bring consistency in the approach to risk management.

### **Managed Audits**

#### **Treasury Management**

The purpose of this audit was to verify that the key controls expected by the Audit Commission are in place and operating effectively. Of the nine areas evaluated in this review, controls were found to be satisfactory in two areas; partially effective in five areas; and weak in two areas. The main area of weakness covered a lack of reconciliation between treasury management records and SAP accounting values, the other weakness was surrounding the retention of documents to support investments. A management action plan has been agreed to address the areas of weakness.

### **3. Workload Update**

Although there are a substantial number of reports at draft stage management are in the process of responding to these and final reports will be issued shortly and the findings shared with this committee.

In addition to the audit work detailed below there are a number of other areas of work that SWAP have undertaken including the on-going provision

of audit advice, ad-hoc special investigations and involvement in the SAP project providing advice and guidance on control issues.

The following reviews are in progress or are going through the reporting process :-

| <b>Audit area</b>                                | <b>Type of review</b> | <b>Progress</b> |
|--|-----------------------|-----------------|
| IT Audit - Compliance against ISO27002 level one | Computer Audit        | Draft Report    |
| IT Audit – Disaster Recovery Planning            | Computer Audit        | Draft Report    |
| Leisure Services & Arts Qtr 3                    | Operational review    | Testing         |
| Treasury Management Qtr 3                        | Managed Audit         | Draft           |
| Payroll Qtr 3                                    | Managed Audit         | Draft           |
| Creditors Qtr 3                                  | Managed Audit         | Draft           |
| Debtors Qtr 3                                    | Managed Audit         | Draft           |
| Council Tax / NNDR Qtr 3                         | Managed Audit         | Draft           |
| Housing Benefits Qtr 3                           | Managed Audit         | Draft           |
| Main Accounting Qtr 3                            | Managed Audit         | Draft           |
| Asset Management Qtr 4                           | Operational Audit     | Testing         |
| DLO Street Cleansing Qtr 4                       | Operational Audit     | Draft Report    |
| Service Planning Qtr 4                           | Governance Audit      | Not started     |
| VAT Qtr 4  | Operational Audit     | Not started     |
| Building Control Qtr 4                           | Operational review    | Not started     |
| Telephones Qtr 4                                 | Operational Audit     | Not started     |

#### **4. Recommendation**

The Committee should note the content of this report.

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