

# APPENDIX 1

## Tees Valley Audit & Assurance Services

### Internal Audit Report

# Middlesbrough Borough Council

## Internal Audit Annual Report



**Report issued by:** Helen Fowler, Audit and Assurance Manager

**Date:** 30 June 2014

**Distributed to:**

Members of the Corporate Affairs and Audit Committee

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# **Tees Valley Audit & Assurance Services**

## **Annual Report of the Audit and Assurance Manager**

### **2013/14**

#### **1. Introduction**

1.1 The objectives of this report are to:

- a) Provide a summary of the internal audit work performed in the year 2013/14 and to express an opinion on Middlesbrough Council's overall internal control environment, based on the work carried out.
- b) To consider the internal audit performance outcome for 2013/14 for Tees Valley Audit & Assurance Services and to provide an assessment of the internal audit service against the Public Sector Internal Auditing Standards (PSIAS).

#### **2. Background**

- 2.1 Since 1 January 2011, the Council's internal audit service has been provided by Tees Valley Audit & Assurance Services (TVAAS), a shared service arrangement between Redcar & Cleveland and Middlesbrough Councils.
- 2.2 The work of TVAAS is governed by the Accounts and Audit Regulations 2011 and Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Audit and Assurance Manager is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement. Audit work was undertaken across all of the Council's services and activities in accordance with an Internal Audit Plan, which was approved by the Audit and Governance Committee at its meeting on 20 June 2013.
- 2.3 Internal Audit assists management in delivering the objectives of the Council by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.
- 2.4 The Corporate Affairs and Audit Committee has responsibility for reviewing the adequacy of the Council's Corporate Governance arrangements. Reports issued by TVAAS are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended. On behalf of the Corporate Affairs and Audit Committee and the Assistant Director, Finance and Investment (Chief Financial Officer), TVAAS acts as an assurance function providing an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined

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approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### 3. Annual Internal Audit Opinion

3.1 TVAAS undertakes its programme of work in accordance with the standards set out in the PSIAS. Standard 2450 states that the Council's chief audit executive should provide an annual internal audit opinion and report on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual opinion should be supported by sufficient, reliable, relevant and useful information. The annual report should cover:

- (a) the scope of the work undertaken and the time period to which that opinion refers;
- (b) a summary of the audit work used to form an opinion;
- (c) the opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;
- (d) any qualifications to be made to the overall opinion and reasons for them,
- (e) any issues of relevance to the Council's Annual Governance Statement;
- (f) a statement on conformance with the PSIAS and the results of the internal audit service's quality assurance and improvement programme.

3.2 The overall opinion of the Audit and Assurance Manager on the controls operating in the Council is that they provide **Satisfactory Assurance**. This opinion is based on the work performed by the internal audit team during the year 2013/14 (**Appendices A-C**) and no reliance was placed on the work of other assurance bodies in reaching this opinion.

3.3 During 2013/14, the following key areas, to be considered for inclusion in the Annual Governance Statement, were highlighted by internal audit work:

- Internal audit work on key financial systems highlighted some areas of non compliance with accounting procedures across various Council service areas. Two particular areas of budget managers' responsibilities need to be addressed: 1) Service and budget managers need to be reminded of their debt recovery responsibilities to ensure that the Council's overall debt recovery is maximised. 2) Service and budget managers need to be reminded of their responsibilities regarding the raising of purchase orders in order to reduce the number of invoices that cannot be progressed for payment due to the lack of an appropriate order. Compliance with the Middlesbrough Manager Framework should hopefully address these issues.
- Coroners Financial Controls - the audit report included 19 recommendations, including one P1. Based on the testing undertaken, the audit concluded that there was an overall weakness in the control environment within the financial systems currently being used. Actions are being taken to address the recommendations made in the audit report.

3.4 The opinions used by TVAAS during 2013/14 are provided for the benefit of Members below:

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**Substantial Assurance** - Overall, very good management of risk to the achievement of objectives. Based on the audit work undertaken, an effective system of internal control is in operation and is applied consistently.

**Satisfactory Assurance** – Overall, satisfactory management of risk to the achievement of objectives. Based on the audit work undertaken, an acceptable internal control environment is in operation, but there are a number of improvements that could increase its consistency and effectiveness.

**Limited Assurance** – Overall, weak management of risk exists within a key area(s) that is/are crucial to the achievement of objectives. Major improvements need to be made to the system or area in order to ensure the control environment is effective.

**Little/No Assurance** - Overall, fundamental failures exist within the control environment and the Council is exposed to unacceptable levels of risk. Key areas that are crucial to the achievement of objectives need fundamental improvements.

The following categories of opinion are also applied to individual recommendations agreed with management:

**Priority 1 (P1)** – A fundamental risk exists to the achievement of the system/service objectives and it is of an unacceptable level. Management should initiate immediate action to address this system weakness.

**Priority 2 (P2)** – A significant risk exists which has the potential to adversely affect the achievement of the system/service objectives. Management should initiate timely action to address the weakness.

**Priority 3 (P3)** – System objectives are not exposed to significant risk but the issue merits attention by management as it offers service improvements by complying with best practice, and strengthening the overall control environment.

### 4. TVAAS Performance

- 4.1 The Council's internal audit service is delivered via a shared service arrangement between Redcar & Cleveland and Middlesbrough Councils. A service level agreement is in place between the two councils and includes a number of performance measures. The outturn against these performance measures for 2013/14 is detailed in **Appendix D**.

**Explanation is provided below for those targets that were not achieved.**

#### 4.2 **Audit Plan Delivery 2013/14 – 82% (2012/13 – 92%)**

The original number of days planned for audit work for 2013/14 was 1325, the same number as for 2012/13. It should be noted that in 2012/13, the Service had 14.6 staff to complete 1240 audit days for Redcar and Cleveland and 1325 for Middlesbrough whilst in 2013/14, the Service only had 10.8 staff to complete 1150 days for Redcar and 1325 for Middlesbrough. Given the reduction in staff, the increased productivity of the team means that the impact on the audit plan completion percentage has not been excessive. Another contributory factor is that some members of the team did not meet their individual performance targets which inevitably have a cumulative impact on the overall team performance. Areas of non performance are being addressed via the Council's performance

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management framework and also the Service's own Quality Assurance Improvement Programme.

### 4.3 Proportion of Audits Completed Within Budget

76% of audits were completed either within the budgeted days allocated or were less than a day over the budgeted allocation. This was a new measure for 2013/14. If an auditor suspects that more time will be required on an assignment then the reasons for this should be explained to the team leader or lead auditor with approval for additional time given. It is acknowledged that some members of the team need to improve time management skills and this has been picked up on in the recent appraisals and 121s and will be monitored more closely throughout 2014/15 to ensure that additional time is only taken when justified.

### 4.4 Variations to the Audit Plan

Standard 2000 of the PSIAS states that the audit plan should be sufficiently flexible so as to reflect the changing risks and priorities of the Council. The Plan for 2013/14 provided sufficient flexibility and contingency to enable a number of variations to the agreed audit plan to take place. **Appendix E** details the main variations to the version of the plan originally agreed in June 2013. Most of these variations have been reported to this Committee throughout the year in the progress reports but a number of additional variations have taken place since the most recent progress report was made to this Committee on 25 March 2014. It should be noted that not all of the assignments in **Appendix E** replaced planned audits as each annual audit programme includes a contingency allocation of time for dealing with issues as they arise.

In addition to the areas detailed in **Appendix E**, additional time has also been spent on following up on the implementation of previously agreed recommendations and on responding to queries and requests for advice from Council departments.

### 4.5 Internal Audit Resources

TVAAS is hosted by Redcar & Cleveland Council and delivered through a joint arrangement with a service level agreement setting out the terms of the service to be provided to Middlesbrough Council.

TVAAS currently has 10.8 FTES dedicated to internal audit and counter fraud work. The Service also has an Audit Assistant and has a vacancy at auditor level. There are no immediate plans to fill the auditor vacancy due to Middlesbrough Council having to make its own savings and therefore requesting a 25% reduction in planned audit days. Although the number of internal audit staff has reduced since the introduction of the shared service, it is considered that the Service can still deliver the existing audit plans for both councils because it has increased its productivity and achieved a number of efficiencies in the way it works:

- The individual productivity of staff has increased over the last year as there has been increased monitoring of time allocations in order to identify where time has previously been lost so that appropriate action can be taken.

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- The Service now has a new audit management software system which is expected to deliver further efficiencies.
- A continued risk focused approach to audits across both councils meaning that resources are focussed on the key areas.
- The introduction of senior auditors being responsible for a themed area across both councils e.g. environment, has proved to be beneficial with the senior auditors gaining more knowledge, intelligence and expertise in their area. This has an impact upon the depth and quality of critical friend work and audit assignments carried out. It also reduces the time required for an auditor to familiarise themselves with the audit areas. The removal of the former distinct two team approach has contributed to an exchange and sharing of knowledge and ideas thereby reducing duplication and providing increased benefit to both councils.
- At Redcar and Cleveland, the risk management and insurance and health and safety teams have been combined with internal audit which means that officers across the combined Audit and Assurance Team can share information and assist the timely communication and resolution of risk and areas of non compliance. There is an opportunity for Middlesbrough Council to also benefit from this arrangement due to the additional skills and experience available.

### 4.6 Value Added

From the outset, one of the objectives of the shared service was to add value in the work that it performs. As Middlesbrough faces significant and challenging financial pressures in the years ahead, it is vital that TVAAS' work supports the Council in achieving its objectives.

To ensure that TVAAS delivers an effective internal audit service, the Audit and Assurance Manager completes an annual assessment of the internal audit service against the criteria as set out in the Public Sector Internal Audit Standards (**Appendix F**).

During 2013/14, it is considered that the work carried out by members of TVAAS have helped identify a number of issues/key risks that needed to be addressed. Examples include the following:

- A review of the financial controls in place at the Coroner's Service resulted in the identification of numerous areas for improvement which are now being addressed.
- Internal audit work on key financial systems highlighted some areas of non compliance with accounting procedures across various Council service areas, particularly regarding budget managers' responsibilities.
- The audit of Monitoring of Safeguarding Adults Alerts highlighted that, despite the introduction of a new computer system, additional work was still required to ensure that the Council is able to effectively monitor whether safeguarding alerts were being progressed within the correct timescales. Remedial action has therefore been agreed.
- Whilst carrying out system testing on Citrix accounts for Mouchel, the Systems Auditor identified some issues which were addressed prior to roll out.
- To help with resource pressures, TVAAS performed additional audit verification work on the housing benefit count.

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- The income and cash handling audit identified important weaknesses in current practices in terms of the amount of debt within Regeneration, and the lack of robust process for pursuing this debt.
- Volunteer workers play an increasingly important role and an audit early on in the financial year highlighted some areas to be addressed to ensure that volunteer workers are safeguarded.

Examples of Customer Feedback received during the year:

*The Auditor has provided an excellent, helpful service. He has been very pleasant to work with and has identified some very important weaknesses in our current practices. Very pleased with results, this is exactly what I am looking for from the audit service.*

*The Auditor showed a great understanding of the area of work and was able to point out areas of slight concern which were very relevant. The audit was carried out very efficiently and any constructive comments are welcomed.*

*Thank you for this report it is very helpful in identifying the issues so that they can be resolved.*

### 4.7 Appendices

- Appendix A – Summary of final audit reports issued 2013/14**
- Appendix B – Type of recommendations made during 2013/14**
- Appendix C – Priority 1 recommendations 2013/14**
- Appendix D – TVAAS performance outturn**
- Appendix E – Variations to the 2013/14 audit plan**
- Appendix F – Assessment of TVAAS against the PSIAS**

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**APPENDIX A – COMPLETED AUDITS/FINAL REPORTS ISSUED 2013/14**

**(Items in bold represent those audits which have been issued in final since the last report to Members in March)**

Audit Title and Final Issued Date	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
Road Safety 22/08/2013	NC	Satisfactory	0	2	5	The audit concluded that the Council has performed well by achieving all of the targets set out for casualty reduction in the white paper “A New Deal for Transport; Better for Everyone” (2000-2010), and has continued to meet government targets since the introduction of a new National Road Safety Strategy (2010- 2020). The audit identified that further progress could be made by the service area through improved budgetary control, assessing the effectiveness of initiatives provided both in house and externally and by evaluating all potential income streams.
Members Allowances 16/05/2013	COR RES	Satisfactory	0	3	3	The audit identified that an acceptable internal control environment is in operation with no major issues identified. Recommendations made were mostly minor aimed at improving the administration of claims and ensuring that reimbursements are made at the correct rate.
Museums 07/10/2013	NC	Limited	0	3	1	Overall, weak management of risk was found to exist within the key areas of employment clearances, cash handling and inventories. Improvements are required in these areas to ensure the control environment is effective. The recommendations were accepted and action has been taken accordingly. Standard cash handling procedures have been agreed and training has also been provided to users on the usage of the chip and pin



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Audit Title and Final Issued Date	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
						device. Action has been taken to identify which clearances are still required to ensure that any outstanding ones are carried out.
Volunteer Working 12/09/2013	NC	Limited	0	3	4	The audit found that controls were generally operating well. It was confirmed that appropriate fidelity insurance is in place for the Council's volunteers and that there is evidence of regular liaison with the public in order to raise awareness of the volunteering opportunities available. During 2012/13, with 503 registered volunteers, the Council surpassed its target of 450. Audit testing did highlight an inconsistent level of compliance with recruitment processes and the Volunteers' Policy. There were minor issues noted related to the availability of cash handling procedures. Managers have been reminded of the importance of using and retaining the correct documentation and agreed to schedule training and awareness sessions.
Town Hall and Theatre 18/11/2013	NC	Satisfactory	0	3	2	The audit identified that, overall, there is an adequate control environment in place. However, some issues were identified regarding compliance with working time directives and Council policies. Minor control weaknesses and anomalies with banking and bar income sheets were identified and notified to the appropriate venue manager.
Highways Maintenance 19/11/2013	NC	Satisfactory	0	4	7	Audit testing identified an acceptable internal control environment in operation but also recommended further improvements. The Auditor suggested actions relating to the schedule of rates, updating of maintenance scheme information, debt recovery

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Audit Title and Final Issued Date	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
						processes, recording of the disposal of small assets and the accuracy of overtime claims.
Monitoring of Performance of Youth Care Planning Team 25/11/2013	WCL	Satisfactory	0	1	2	No major issues were identified during the audit and an acceptable internal control environment was found to be in operation. Recommendations were made in the areas of records management and performance monitoring and reporting in order to highlight the effectiveness of the Team's work.
Redundancy and Redeployment 22/11/2013	COR	Substantial	0	0	1	Effective controls were found to be in place with clearly written policies and evidence that all requisite procedures were being followed.
Bus Station and CCTV 16/01/2014	NC	Substantial	0	1	0	Overall, an effective system of internal control was found to be in operation and applied consistently. The Auditor recognised the considerable amount of work carried out to address all previously agreed recommendations. There have been significant improvements to the CCTV provision which will contribute to the protection and wellbeing of the community. Management have stated that random checks will be carried out to help ensure that the Council complies with the revised Section 29 (6) of the Protection of Freedoms Act 2012 – Surveillance Camera Code of Practice' which came into force in June 2013.
Patron Edge 19/02/2014	NC	Limited	0	9	1	Whilst the Patron Edge System software was found to be fit for purpose based upon testing undertaken, testing of the administration controls within the application identified that the current set up required review due to the access hierarchy within the

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Audit Title and Final Issued Date	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
						software not reflecting the staff management structure. A complete review of user accounts and associated privileges for the system will be required in order to ensure the control environment is effective.
Treasury Management 10/12/2013	COR	Substantial	0	0	0	Based on the audit work undertaken, an effective system of internal control was found to be in operation. Audit testing demonstrated compliance with legislative requirements of the CIPFA Prudential Code for Capital Finance in local authorities and there was clear evidence of effective record keeping, appropriate levels of authorisation and segregation of duties.
Pension Fund Investments 21/01/2014	COR	Satisfactory	0	2	1	Audit testing confirmed that an acceptable internal control environment was in operation. Recommendations were made relating to staff cover, tax reclaims and reconciliations.
Supplier Payment Anti Fraud Controls 20/12/2013	COR	Substantial/satisfactory	0	2	1	For the areas examined relating to the setting up and amendment of vendor details, there was found to be very good management of risk. An effective system of internal control was in operation and being applied consistently. Whilst controls in place for the management of direct debits orders also provided satisfactory assurance, some improvements were suggested by the Auditor to strengthen anti fraud controls.
Social Fund Anti Fraud Controls 07/01/2014	COR	Substantial	0	0	6	Audit testing found that the Community Support Scheme has been working satisfactorily since the Council took the scheme over from the DWP in April 2013. Applications are being processed promptly,

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Audit Title and Final Issued Date	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
						with very few appeals against decisions made by the service. Appropriate checks have being carried out by the Client Benefit Manager to reduce the risk of fraud or misuse. The Auditor made a number of recommendations to strengthen the control environment including the evidencing of random checks, staff cover and following correct procedures.
St Alphonsus RC Primary School 16/12/2013	WCL	Satisfactory	0	0	5	The audit concluded that controls were generally operating well in most areas. The School was provided with the guidance template to assist in the preparation of a business continuity plan. It was recommended that constitutions should be in place for the school funds and that the funds should be subject to independent audit.
Trinity Catholic College 29/11/2013	WCL	Substantial	0	0	0	An effective system of internal control was in operation and being applied consistently.
Corpus Christi Primary School 28/01/2014	WCL	Substantial	0	0	1	An effective system of internal control was found to be in operation and being applied consistently. The Auditor was assured that the production of a three year budget plan was due to commence in the very near future.
Prince Bishop special School 15/01/2014	WCL	Substantial	0	0	1	An effective system of internal control was found to be in operation and being applied consistently. The one recommendation made related to the completeness of the School's emergency plan.
Monitoring of Effects of Fostering Campaign 20/02/2014	WCL	Satisfactory	0	3	1	Although the recent campaign had been successful in terms of increasing the potential number of in-house foster carers, the audit recommended that a cost benefit analysis of the campaign be calculated and reported to management. It was also

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Audit Title and Final Issued Date	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
						highlighted that an appropriate budget and level of staffing would be required to recruit, train, sustain and support foster carers, especially with the increase of carers planned and that consideration should be given to having a separate budget for the training of foster carers.
<b>Main Accounting</b> 05/06/2014	<b>Strategic Resources</b>	<b>Satisfactory</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>Based on the audit work undertaken, an acceptable internal control environment is in operation, and has been applied consistently throughout the year. Some minor recommendations were made to further improve the existing controls.</b>
<b>Council Tax</b> 14/02/2014	<b>Strategic Resources</b>	<b>Satisfactory</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>The audit identified an acceptable internal control environment. Some recommendations were made to address the lack of a disaster recovery plan for the i-world system and to ensure that sufficient evidence is held to support claims made.</b>
<b>Capital Accounting</b> 03/04/2014	<b>Strategic Resources</b>	<b>Substantial</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>An effective internal control environment was identified during the audit.</b>
<b>Housing and Council Tax Benefits</b> 22/05/2014	<b>Strategic Resources</b>	<b>Substantial</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>An effective control environment was found to be in operation although it was noted that a disaster recovery plan needed to be put in place for the i-world system.</b>
<b>Business Rates</b> 14/04/2014	<b>Strategic Resources</b>	<b>Satisfactory</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>An acceptable control environment was found to be in operation although a small number of improvements were suggested. Actions agreed addressed the need for control logs to demonstrate that reminders generated by the system have been produced, checked and</b>

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Audit Title and Final Issued Date	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
						distributed to account holders on a timely basis. The lack of a disaster recovery plan for the i-world system was also highlighted.
Cash Contract 24/03/2014	Strategic Resources	Substantial	0	0	2	Based on the audit work undertaken, an acceptable internal control environment was identified. Some minor improvements were recommended to increase the effectiveness of contract monitoring.
Coroner's Service - Long Inquest Fees 30/04/2014	Assistant Chief Executive's	Limited	0	4	0	The audit examined the controls in place at the Coroners Service for the recording and claiming of long inquest fees. A number of improvements were required to address the consistency and format of information being provided to the Council and the effectiveness of the control environment.
Coroner's Service – Financial Controls 28/04/2014	Assistant Chief Executive's	Little/No	1	15	3	The audit was undertaken at the request of the new Senior Responsible Officer within the Council and was due to concerns regarding the financial control environment and lack of implementation of recommendations made in a previous internal audit report issued in 2008.  Based on the testing undertaken, the audit concluded that there were weaknesses in the overall control environment for financial systems and processes. The actions are now being addressed.
Workforce Planning and Service Continuity 26/03/2014	Wellbeing, Care and Learning	Satisfactory	0	1	1	The audit identified that management had undertaken significant work to anticipate and plan for the financial and resource demands that will be placed on adult social care in the future.

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Audit Title and Final Issued Date	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
						There are factors outside of management's control i.e. the full impact of the Health and Social Care Bill (the Care Bill) which, together with the Change Programme, limited the ability of the audit to accurately analyse how effective the workforce planning process will be in meeting future service needs.
Impact of Academies 01/05/2014	Wellbeing, Care and Learning	Satisfactory	0	1	5	Based on testing covering the period from 1 April 2013 to January 2014, an acceptable internal control environment was identified but a number of actions were agreed to further strengthen the control environment.
Monitoring of Safeguarding Adult Alerts 22/05/2014	Wellbeing, Care and Learning	Limited	0	3	5	A new Integrated Adults System (IAS) was introduced in December 2012 which was to offer an improved approach to records management and safeguarding alerts in relation to task completion. The findings of this audit suggested limited improvement to the issues identified by the audit carried out in 2013. Testing found that the processes in place to ensure that the timescales, for responding to alerts, require further improvement and that there is currently no facility, within IAS, for producing reports to regularly monitor how many alerts are being processed within timescales.
<b>Total</b>		<b>132</b>	<b>1</b>	<b>66</b>	<b>65</b>	

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Of the 132 recommendations detailed above, 1 was ranked as Priority 1 and more detail of this recommendation is provided in **Appendix C**.

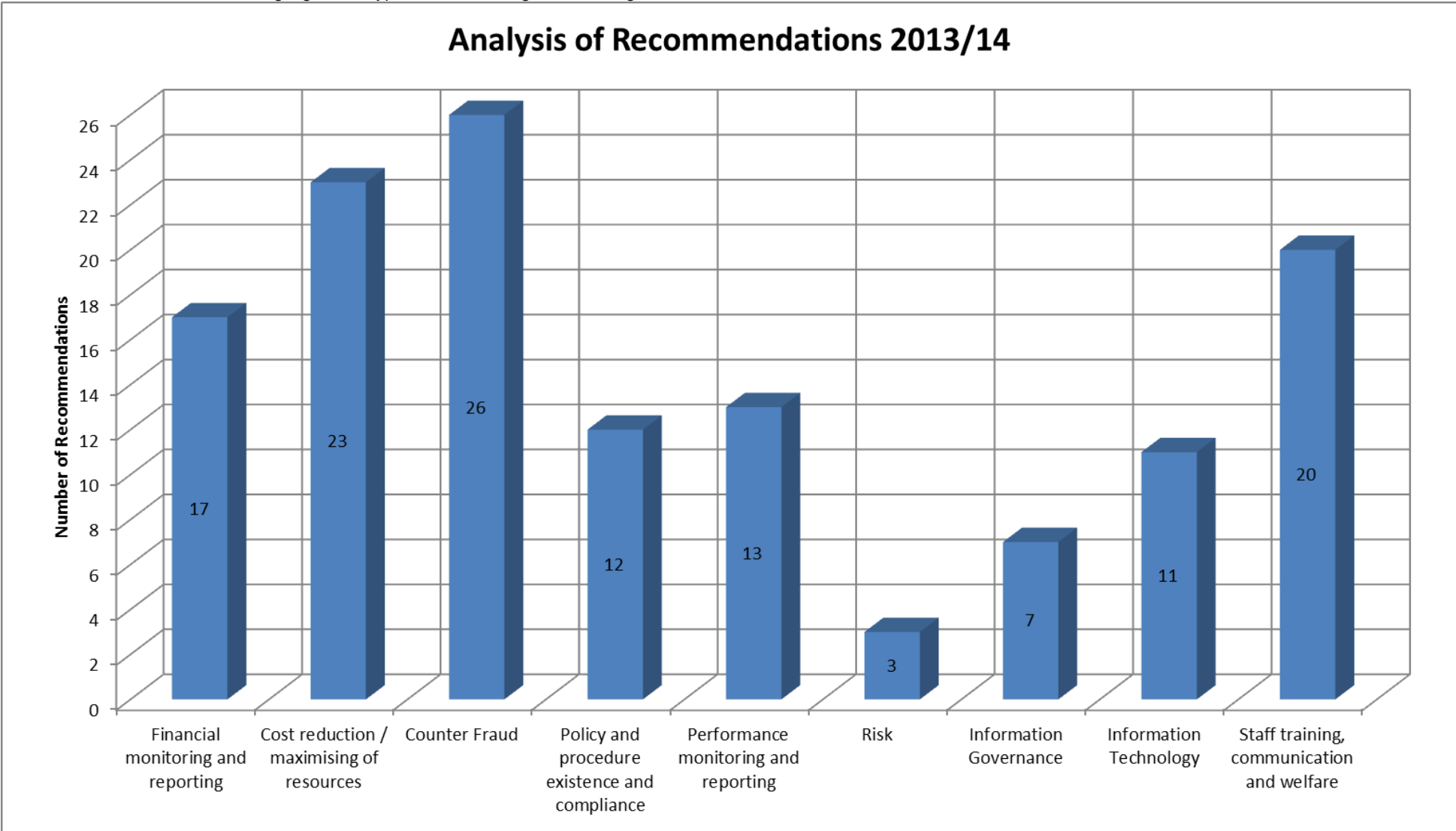
The table below details the provisional audit opinion for each of the remaining audits from the 2013/14 audit plan. Most of these audits have been completed but are still at **draft report** stage and therefore awaiting final agreement with the relevant officers.

<b>Audit Title</b>	<b>Draft Opinion</b>
Income and Cash Handling	Satisfactory
Payroll	TBC
Debtors	Limited
Creditors	Limited
Pension Fund Administration	TBC
Council Website	Satisfactory
Change Programme Phase 1 Appraisal	TBC
Direct Payments	Satisfactory
Welfare Reform – Customer Service Points	Satisfactory
Off Payroll Payments	Limited
Public Health Budget and Contract Monitoring	Substantial



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APPENDIX B - The table below highlights the type of issues being found during 2013/14



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**APPENDIX C - PRIORITY ONE RECOMMENDATIONS 2013/14**

Audit Area	Directorate	Recommendation	Implemented Y/N	Responsible Officer	Comments
Coroner's Service	Assistant Chief Executive's	It was found that SAP was installed on the Coroner's Service computers, but was still not in use. Staff have attended a SAP course, but as they have not been accessing SAP it will be necessary for them to attend a refresher course. (This was agreed recommendation 15 of the previous audit report dated 19 December 2008).	Yes	Environmental Health Manager and Clerk to H.M. Coroner for Teesside	SAP training has been completed for all staff.

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**APPENDIX D – TVAAS Performance Target Outturn for 2013/14**

<i>Indicator</i>	<i>Target</i>	<i>Measurement</i>	<i>Current Status</i>
1) Percentage completion of the agreed annual audit plan	100%	Complete = draft report or other deliverable issued by 30 April 2014.	Not achieved 82%
2) To achieve an average customer satisfaction survey score	3.5	4 is the highest possible score.	Achieved 3.71
3) % of recommendations agreed/accepted at draft stage	95%	To make more meaningful, this indicator now measures the accuracy of the auditor's findings at draft stage by monitoring the number of recommendations removed/amended following draft report discussions.	Achieved 98%
4) % of draft reports issued within 15 days of the end of fieldwork	85%	Target increased from that included in SLA due to last year's performance exceeding target.	Achieved 91%
5) % Auditor productivity	Senior – 85% Auditor – 90%	% of time that individual is at work which is allocated to productive audit work (as opposed to training and admin codes).	Part Achieved Seniors average 82% Auditors average 91% Please also see table below.
6) Time taken to complete an assignment	Audit start date to final report issued date	Target will be set by each audit lead and agreed with auditor at the start of each assignment. Performance is calculated as the average time in months.	Average length of time to date (based on 13/14 completed assignments) is 4.2 months.

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7) Number of audits completed within the budgeted time allocation	100%	Each assignment has a set number of days which should be adhered to. If an auditor requires additional time then a case has to be approved by Audit Team Leader/Manager.	Not Achieved 49% however another 27% were only just over the budgeted allocation meaning that 76% assignments are currently being delivered either within budget or only a day in excess.
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**Auditor Productivity**

	31/03/2011	31/03/2012	31/03/2013
Average number of productive days per member of audit team	150	175	189
% Productivity (based on working days available after annual leave and public holidays)	72%	80%	81%
% Productivity (based on working days available after annual leave, public holidays, sickness and authorised absence)	75%	82%	83%

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**APPENDIX E – SIGNIFICANT VARIATIONS TO THE 2013/14 INTERNAL AUDIT PLAN AND APPLICATION OF CONTINGENCY TIME**

The following table details areas examined during 2013/14 that were not included on the original internal audit plan or planned audits that have not been completed. In addition to those areas below, TVAAS also carried out various grant certification work.

<b>Audit area</b>	<b>Estimated days</b>	<b>Time taken from</b>	<b>Reason</b>
Hubs Governance and Decision Making	10	Change Programme Contingency	To review the decision making processes affecting the usage of the remaining buildings - marketing, expressions of interest, decision flowchart and what options for use of building were considered. Requested by the Deputy Director of Resources. At the request of the Executive Director of NC, this audit has now been deferred into 2014/15.
Central Depot Anti Fraud Measures	5	NCO Contingency	A review of the anti fraud controls following an anonymous allegation that tools and items of small equipment were being misappropriated. There was no evidence to prove the allegations but recommendations were made to strengthen controls to prevent any future misuse.
Governance Mapping	12	Change Programme Contingency	Mapping of committee and management decision making structures to assist with Deloitte corporate governance review. Requested by the Director of Transformation and the Deputy Director of Resources.

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Audit area	Estimated days	Time taken from	Reason
Troubled Families	10	WCL Contingency	A data quality review of the submissions made as part of the Troubled Families initiative. A similar audit had been carried out at R&C therefore it was hoped that best practice/problems can be shared. Requested by the Deputy Director of Resources.
Change Programme Project Lead – Highways and Transport	25	Change Programme – Support Costs	Use of some of the Change Programme resource for the Audit Manager to act as the project lead for the highways and transportation review and to allow for a senior auditor to assist.
Housing Benefit Count – additional audit verification work	41	Special Investigations	Each year, both TVAAS and the Council’s housing benefits team carry out housing benefit count audit work which is subject to external audit scrutiny. The impact of welfare reform changes has placed considerable work pressures on the Council’s staff and therefore it was requested that, for this year, TVAAS staff would perform all elements of the audit. The work involved two senior auditors. Requested by the Deputy Director of Resources.
Risk Management	15	To defer from this year’s plan.	The Assistant Chief Executive requested that this audit be deferred due to the level of changes and restructuring ongoing within the Council. The audit is on

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Audit area	Estimated days	Time taken from	Reason
			the 2014/15 audit plan.
Coroner's – Long Inquest Fees	12	From the above Risk Management audit and from Counter Fraud reviews.	A review into the claim and payment process for long inquest fees. Requested by the Assistant Chief Executive.
Safeguarding Young People	10	Time taken from WCL Contingency and WCL Meetings/Advisory.	A piece of work to be undertaken at the request of the Executive Director of Wellbeing, Care and Learning. The Auditors had undertaken a similar piece of work at Redcar and Cleveland Council and good practice would be shared across the two audits as appropriate. It was later requested that the audit be deferred into the next financial year.
Coroner's Service Financial Controls	31	Days from the audits of Risk Management and Internet/Email and Counter Fraud reviews.	An audit requested by the Assistant Chief Executive.
Municipal Golf Centre	8	NC Contingency	A piece of work requested by the Environmental Services Manager to investigate financial discrepancies.
Value for Money – Environment and Community Services	30	To be deferred into 2014/15 Audit Plan.	Deferred to 2014/15 plan at the request of the Assistant Director – Environment.
Income Generation and Targets	20	Removed from Plan but not proposed to defer into the next year.	Due to the decisions to be made as to the extent of services to be outsourced within NC, it was agreed that this audit was no longer considered to be a priority.
Property/Asset Management	20	To be deferred into 2014/15 Audit Plan.	At the request of the Executive Director NC, this audit has been

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Audit area	Estimated days	Time taken from	Reason
			requested to be deferred into 2014/15.
MIMA	10	To be deferred into 2014/15 Audit Plan.	At the request of the Executive Director NC, deferred to 2014/15 due to timing of transfer date.
Internet/email usage	10	Removed from Plan but not proposed to defer into the next year.	Not considered to be a priority at the present time and aspects of the audit will be picked up within the Information Governance audit.
Service Demand Planning	15	To be deferred into 2014/15 Audit Plan.	The Executive Director WCL has requested a longer and more detailed piece of work on this area and it has therefore been agreed to defer it into the 2014/15 Plan.
SAP – IT audit	20	n/a	Not completed – the Council is procuring a new financial system, Agresso.
Business Continuity – IT audit	20	n/a	Not completed due to time constraints.
Duplicate Payments	10	n/a	The audit was to review the progress to implement the action plan arising from an external review. As the external review was delayed, this audit was deferred.
Liquid Logic IT audit	15	n/a	Requested to be deferred pending applications review.
Contract Investigation	6	NC Contingency	Investigation into contract management issues.
Additional work required on the Coroner's Service	5	Counter fraud reviews	To carry out additional analysis work.



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**APPENDIX F – Assessment of TVAAS against Public Sector Internal Audit Standards (PSIAS) 2013/14**

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
1000 Purpose , Authority and Responsibility	Met	The internal audit charter was approved by the Audit and Governance Committee in Dec 2013. It sets out the reporting relationships, position and accountability of internal audit. It recognises the mandatory nature of the PSIAS and will be reviewed annually.		
1100 – Independence and Objectivity	Most	The Service is sufficiently independent and staff declare any conflicting interests on an annual basis. Staff do not work on those areas where there could be a potential conflict of interests. The Audit and Assurance Manager reports directly to both councils' S151 Officers and has 121 meetings with the Chairs of both Audit Committees. Audit assignments are periodically rotated.	Feedback on the audit service has not formally been sought from the Audit Committee Chair.  Auditors may not all be sufficiently familiar with the Bribery Act 2010.	Feedback on the performance of the Service to be obtained from both Chairs of the Audit Committees.  Need to ensure that all auditors are aware of the Bribery Act 2010.

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Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
1200 – Proficiency and Due Professional Care	Most	<p>Staff are reminded of ethical responsibilities at team development days. All staff complete an annual declaration of interests form and sign up to the ethics as set out in the PSIAS.</p> <p>The Audit and Assurance Manager is a qualified ACCA and IIA and has both private sector and local government experience.</p> <p>Overall customer feedback is very positive.</p> <p>The Audit and Assurance Manager has annual 121s with all members of the team to discuss competencies.</p>	<p>Some job descriptions need updating following Shaping our Future.</p> <p>Data analysis techniques have not been applied as much in the last year due to the prohibitive cost of renewing IDEA.</p> <p>Some individual examples of auditors needing to take extra care with the quality of their work. However, overall customer feedback is positive.</p> <p>Limited evidence of continuing professional development by some members of the team and not all maintain their professional subscriptions.</p>	<p>All JDs are in the process of being updated following restructures.</p> <p>Data analysis capabilities to be reviewed with advanced excel training where required.</p> <p>Individual performance to continue to be addressed via 121s/appraisal and performance framework.</p> <p>More evidence to be obtained of continuing professional development.</p>

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Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
1300 – Quality Assurance and Improvement Programme (QAIP)	Scope to develop	<p>In accordance with the PSIAS, the Service has a QAIP in place. The first assessment has been completed and an improvement plan will be developed.</p> <p>A sample of 6 audit assignments from 2013/14 was reviewed for the quality of evidence collated to support the findings, the adequacy of the approach/ process followed, the level of communication throughout the audit and the perceived value added by the audit.</p> <p>The Service has various performance measures both for the team and individually. Some of the measures are as defined in the SLA with Middlesbrough.</p>	<p>The QAIP has identified improvements required to the thoroughness of the review process.</p> <p>From the cases included in the sample, it was apparent that audit trails and filing required some improvement particularly when evidencing discussions held with audit clients. The location of storing documents was also an issue but this should be resolved going forward due to the implementation of the new system.</p>	QAIP assessment results to be reported and shared with all members of the team and an improvement plan developed.

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Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
2000 – Managing the internal audit activity	Most	<p>The audit staff perform assignments in accordance with the audit manual.</p> <p>The audit plan is based on the key risks as set out in the Councils' risk registers. The Audit Plan is consulted on with the S151 Officer, all senior managers, Corporate Affairs and Audit Committee Members, External Audit.</p> <p>Audit plans are flexible and variations can be agreed with senior managers as appropriate. Due to a reduction in audit days for 2014/15, there is no longer a contingency allocation which means that any additional work requested will have to be in place of a planned audit or alternatively, accommodated by the purchase of additional days. Variations are reported to Corporate Affairs and Audit Committee.</p> <p>Assurance mapping exercise still to be carried out at Middlesbrough.</p> <p>Assurance mapping exercise undertaken at Redcar.</p>	A full formal risk assessment exercise has not been completed recently as audits have been based on the content of the risk registers and the key priorities of each council.	<p>The new audit management system will enable risk assessment planning to be undertaken for 2015/16. However, this assessment will only act as a guide in forming the annual audit plan and the main influences will continue to be based on each council's key priorities, the content of risk registers and intelligence received as to areas of non compliance and risk.</p> <p>Assurance mapping exercise to be undertaken 2014/15.</p>

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Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
2100 – Nature of Work	Met	All internal audit work is aimed at improving the governance and control environments of both councils. Audits of IT governance and risk management are carried out periodically. All findings are assessed according to the level of risk. The shared service means that best practice and risk areas can be shared between two councils.		
2200- Engagement Planning	Most	A Terms of Reference is agreed for each assignment and includes scope, timing, resource and objectives. When planning an audit, auditors consider the area's significant risks, resources, operations, objectives and performance. Relevant managers are asked for their input into each ToR. Resources are agreed at the outset for each audit and additional resources required should be approved in advance.	Although auditors are set targets, overruns on days allocated to audits is common and needs to be more effectively controlled.	Continued performance management via 121s and appraisals.

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<b>Standard</b>	<b>Assessment (Met/Most/Partial/Scope to Develop)</b>	<b>Summary</b>	<b>Areas of Non Compliance</b>	<b>Update and further action</b>
2300- Performing the Engagement	Partial	All auditors understand the need to identify, analyse, document and evaluate sufficient information. They should all be alert to the possibility of poor value for money, intentional wrongdoing, errors and omissions, failure to comply with policy and conflicts of interest. All assignments are supervised by a senior auditor or by a team leader/principal auditor.	Some individual assignments do not always meet the standard required due to individual performance. Ongoing feedback and monitoring takes place where this is required.	Actions to be undertaken as per Improvement Action Plan and individual cases to be managed.

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Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
2400 – Communicating Results	Most	Findings of all audits are discussed with the relevant managers/officers at both councils. A draft report is always issued for consultation before the final version is agreed. Each report provides an overall opinion on the level of assurance that can be given by the auditor. All reports are reviewed by the main reviewer and also by the Audit and Assurance Manager with the aim of ensuring that each report is accurate, constructive, clear, concise, complete and timely. Any areas of disagreement with the client are recorded where necessary. All reports are marked according to the protective marking policy. All findings of all final reports are summarised to Audit Committee. The Audit and Assurance Manager issues an annual report including an overall opinion on the control environment.	<p>The first assessment against the QAIP has been completed but the improvement plan is still in process.</p> <p>The circulation of audit reports needs to be redefined following organisational changes at both councils.</p>	<p>Produce and communicate the improvement plan arising from the first assessment against the QAIP.</p> <p>Report circulation policy to be updated for both councils.</p>

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<b>Standard</b>	<b>Assessment (Met/Most/Partial/Scope to Develop)</b>	<b>Summary</b>	<b>Areas of Non Compliance</b>	<b>Update and further action</b>
2500 – Monitoring Progress	Scope to Develop	Whilst auditors review progress against agreed actions there is not a formal follow up process in place yet at Middlesbrough.	Responsible officers will have changed for many agreed recommendations so this will need to be clarified. Follow up process will then be agreed.	Establish and update responsible officers for all outstanding recommendations and agree follow up process.
2600 – Communicating the Acceptance of Risks	Met	Accepted risks for recommendations remain in the relevant audit report. Any risks accepted which were considered to put the Council at risk would be escalated to the Monitoring Officer and the S151 Officer.		