

Tees Valley Audit & Assurance Services

Internal Audit Report



Report issued by: Helen Fowler, Audit and Assurance Manager

Date: 25 June 2015

Distributed to:

Members of the Corporate Affairs and Audit Committee

Tees Valley Audit & Assurance Services
Redcar & Cleveland House
Kirkleatham Street
Redcar
TS10 1RT



Tees Valley Audit & Assurance Services

Annual Report of the Audit and Assurance Manager

2014/15

1. Introduction

- 1.1 The objectives of this report are to:
- a) Provide a summary of the internal audit and assurance work performed in the year 2014/15 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 2014/15 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. On 1 April 2014, TVAAS services to Redcar and Cleveland expanded to incorporate health and safety, risks management and insurance, information governance and business continuity. The Service has recently undergone a service review which will introduce a new integrated way of providing assurance to both councils from 2015/16.
- 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 Corporate Affairs and Audit Committee at its meeting on 30 June 2014.
- 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 Chief Finance

PROTECT/IMPACT LEVEL 1

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 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 **Good Assurance**. This opinion is based on the work performed by the internal audit team during the year 2014/15 (**Appendices A-B**) and no reliance was placed on the work of other assurance bodies in reaching this opinion.

3.3 During 2014/15, the following key areas, to be considered for inclusion in the Annual Governance Statement, were highlighted by internal audit work:

- The existing project management governance arrangements do not currently help support the Council's vision and objectives as there is no effective overall programme management of the Council's portfolio of capital projects. The Council needs to establish a project management framework together with associated procedures to be used by all officers engaged in project management or related assignments. The recommendations of the draft audit report are being addressed by the Executive Director of Corporate and Commercial Services. Connected to the need for an effective project management framework, a number of specific developments and/or projects are currently also being reviewed by the internal auditors, this audit work is still in progress but initial findings suggest the need for greater clarity as to roles and responsibility to ensure clear ownership and the need for close monitoring and supervision of the processes involved.
- The successful roll out and adoption of Middlesbrough Manager is key to ensuring that Middlesbrough Council has an effective governance structure. The programme was at too early a stage to carry out a compliance audit during 2014/15 and so will be an area requiring internal audit input during 2015/16 to confirm that the programme is operating as

PROTECT/IMPACT LEVEL 1

intended.

- 3.4 The opinions used by TVAAS during 2014/15 are provided for the benefit of Members below:

Strong - Overall, a Strong Control Environment in relation to the areas examined. Based on the audit work undertaken, an effective system of internal control is in operation and is applied consistently.

Good - Overall, a Good Control Environment with room for improvement in relation to the areas examined. Based on the audit work undertaken, an effective system of internal control is in operation but is not always applied consistently.

Moderate - Overall, a Moderate Control Environment with some weaknesses in relation to the areas examined. 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.

Cause for Concern - Overall, Cause for concern in relation to the areas examined. 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.

Cause for Significant Concern - Overall, Cause for Considerable Concern in relation to the areas examined. 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.

The above opinions applied to audits issued in 2014/15. The definitions will be slightly adapted for 2015/16 to enable the definitions to also be applied to health and safety audits at Redcar.

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 C**.

PROTECT/IMPACT LEVEL 1

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

4.2 **Audit Plan Delivery 2014/15 – 81%**

The original number of days planned for audit work for 2014/15 was 994 (2013/14 – 1325). The main factors affecting the completion of the audit plan for 2014/15 are as follows:

- Unexpected levels of sickness and absence occurred during 2014/15 – the 17 weeks absence incurred by the internal auditors has been excessive when compared to previous years and was mainly due to three members of staff having long term sickness. The other elements of the Team (risk, insurance, health and safety) also incurred high levels of absence meaning that there was reduced opportunity to share the resources.
- The original audit plan for 2014/15 was based on a resource of 11 internal audit staff; this resource had reduced to 9 by the end of the year with the vacant posts not being filled pending the service review.
- Individual members of the Team not meeting their targets which has a cumulative impact on the overall team performance. Performance issues are addressed on an ongoing basis in 121s and appraisals and escalated via Council HR processes as appropriate.

The recently completed service review is aimed at managing the Team's resource pressures and also at improving the speed with which draft reports are issued.

4.3 **Draft reports issued within 15 working days** - the performance based on drafts issued (within the target 15 working days) in 2014/15 is just below the target at 84% against a target of 85% although the rate has steadily improved during the year. Reasons for the delays have been, in part, due to members of the audit team adjusting to the new audit management system introduced last April and also due to the absence levels. Going forward, the 2015/16 audit and assurance plan will provide a more equitable share of reviewing responsibilities to ensure that reports are not delayed due to holiday and other commitments. In addition, an escalation procedure has been updated which is aimed at ensuring that future reports are turned around in a much shorter timescale.

4.4 **Proportion of Audits Completed Within Budget**

62% of audits were completed either within the budgeted days allocated or were less than a day over the budgeted allocation, against a target of 100%. 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 is continually picked up on in appraisals and 121s. During 2014/15, it was also recognised that the lead auditors needed to monitor more closely those audits under their supervision to ensure that possible time issues were flagged up well in advance. It is planned that the improvements introduced following the service review will help ensure that all compliance/assurance based audits are completed in time.

4.5 **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 D** details the main

PROTECT/IMPACT LEVEL 1

variations to the version of the plan originally agreed in April 2014. Most of these variations have been reported to this Committee throughout the year in the progress reports but a small number may have occurred since the last progress report in April 2015. It should be noted that not all of the assignments in **Appendix D** 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 D**, 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.

4.6 Internal Audit Resources

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

TVAAS now comprises officers from internal audit, health and safety, risk management, insurance, business continuity and information governance. Following a service review aimed at integrating these different areas of assurance, TVAAS will have a staffing resource of up to 22.61 staff (subject to populating the structure as some posts are currently vacant). The objective of the service review was to develop the team so that it will deliver a fully integrated assurance role whilst continuing to provide an effective internal audit service to both Redcar and Cleveland and Middlesbrough Councils. The Team will carry out assurance and compliance work but will also provide more guidance and support on control and governance related issues. The shared internal audit service has delivered a number of efficiencies in its working arrangements since 2011 including increased productivity of staff, a new audit management software system and 'specialisms' attached to individuals to improve the depth and quality of both critical friend and internal audit work. These principles will be applied to the wider team in the months ahead.

The resilience of TVAAS has increased since the various assurance streams were merged and a training strategy and programme will be carried out during 2015/16 to ensure that each officer has the appropriate skills. This will mean, for example, that there are more officers available to carry out health and safety inspections than was previously the case. 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. The Service's Strategy is therefore being updated to detail the vision of the new combined teams and key development actions that need to be taken.

4.7 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 Council 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

PROTECT/IMPACT LEVEL 1

service against the criteria as set out in the Public Sector Internal Audit Standards (**Appendix E**).

During 2014/15, it is considered that the work carried out by members of TVAAS (internal auditors, health and safety, risk management and information governance officers) have helped identify a number of issues and key risks that needed to be addressed. Examples include the following:

- Talking on additional housing benefit count audit testing to assist resource pressures in other Council departments.
- Reviewing payments made to a supplier to confirm whether the Council's procurement rules had been complied with.
- Reviewing a number of requests for exemptions from contract procedure rules.
- Coordinating the Council's involvement in the national fraud initiative (NFI).
- Advising on the policy, procedures and documentation for business grants.
- Undertaking a review of the Council's counter fraud arrangements - this will be reported to the S151 Officer once all anti fraud work for 2014/15 has been collated.
- Following up on the implementation of previous audit recommendations.
- Contributing to investigations at two of the Borough's schools.
- Providing assistance with the inventory and stock count arrangements prior to the transfer of mima.
- Carrying out audit work in a number of areas that have resulted in control improvements with some of those areas since being shortlisted for Middlesbrough Council team awards e.g. Coroner's Service.

Examples of Customer Feedback received during the year:

'The Auditor conducted the audit at a time of transition and delivered the audit in a considerate and thorough manner. He fully understood the brief and the significance of the audit. He was relevant, clear and happy to discuss all of the issues raised and kept me informed throughout. His time, effort and professionalism was very much appreciated. Thank you.'

'The audit was carried out in a professional manner causing only minimum disruption to the office and officers were always given sufficient time to provide information required.'

'The Auditor's approach to this audit was efficient, with minimal disruption to the service. He has a very detailed understanding of the processes in place as he has continued to offer considerable support in relation to implementing the recommendations from the previous audit. This has been integral to the progress we have made in implementing a completely new set of financial arrangements. His approach is realistic and practical, and he is willing to listen to the Service's views, which is the reason why this audit has resulted in positive and effective change.'

'I am very appreciative of the speed in which this audit was conducted and the professionalism of the auditor.'

PROTECT/IMPACT LEVEL 1

4.8 Appendices

- Appendix A – Summary of final audit reports issued 2014/15**
- Appendix B – Type of recommendations made during 2014/15**
- Appendix C – TVAAS performance outturn**
- Appendix D – Variations to the 2014/15 audit plan**
- Appendix E – Assessment of TVAAS against the PSIAS**

PROTECT/IMPACT LEVEL 1

APPENDIX A (1) – COMPLETED AUDITS/FINAL REPORTS ISSUED 2014/15

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

Audit Title	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
Service Level Agreement review 29 July 2014	Economic Development and Communities	n/a	0	0	0	The overall conclusion from this review with an external organisation is that the SLA requirements have been satisfied and can be relied upon for 2013/14. The Auditor noted that the current SLA could benefit from increased clarity as to the actual agreed requirements to make the SLA more meaningful, measurable and driven by the Council's priorities and intended outcomes.
Car Parking 8 Oct 2014	Economic Development and Communities	Moderate	0	1	1	An acceptable internal control environment is in operation in most areas, but there are a number of improvements that could increase its consistency and effectiveness particularly in relation to anti-fraud controls, and these are detailed in the report.
Schools Use of Balances 2 Oct 2014	Wellbeing, Care and Learning	Good	0	0	2	Based on the audit work undertaken, an effective system of internal control is in operation but is not always applied consistently.
Acklam Grange Secondary School 30 Oct 2014	Wellbeing, Care and Learning	Strong	0	0	0	The Auditor found that financial controls, segregation of duties and the authorisation processes were all operating well within purchasing, recording of income received, and in obtaining value for money. The Auditor noted that there was robust vetting of people visiting the school, including contractors who access the site to carry out work. Strong systems of control were also found to be in place with the management and oversight of alternative off-site education provision including attendance records maintained by the School, and the providing/receiving of support and challenge to assist in school improvement.
Coroner's Follow Up 11 Nov 2014	Corporate and Commercial Services	Good	0	0	0	This assignment was a follow up of the audit recommendations made in the 2013/14 audit of financial controls. On this occasion, the Auditor found that there had been a marked improvement in the areas tested during the audit with twelve recommendations having being implemented (including the P1 recommendation), five superseded and two still on-going. Based on the audit work undertaken, an improved system of internal control is now in operation.
Crematoriums/Memorials	Economic	Moderate	0	2	6	Based on the audit work undertaken, an acceptable internal control

PROTECT/IMPACT LEVEL 1

Audit Title	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
29 Jan 2015	Development and Communities					environment was found to be in operation. The Auditor identified that there are effective budgetary control mechanisms in place and that the Service monitors and evaluates its performance against business plan objectives set annually. The audit did however identify some areas for improvement relating to the Service's governance arrangements, in particular the maintenance of service policies & procedures, the monitoring and evaluation of staff training and development records and the review of risk register entries.
Taxi Fees and Licensing 05 Feb 2015	Economic Development and Communities	Strong	0	0	2	Based on the audit work undertaken, an effective system of internal control is in operation and is being applied consistently. The Auditor identified that mechanisms around the assessment of driver/vehicle applications, and the subsequent issuing & monitoring of licenses are robust and that all corresponding income generated from such activities has been recorded and banked in full. Although work was performed to ensure that income for fees was charged and banked correctly, the scope of this audit did not include a review of the actual fee rates being charged in respect of taxi licensing. This area has been subject to a separate piece of work commissioned by the Director of Public Health.
Civica Authority Public Protection (Flare) 2 Feb 2015	Economic Development and Communities	Good	0	2	1	Overall, Civica Authority Public Protection was found to have a good control environment, with some minor issues around the monitoring of users, numbers of system administrators and backup. The audit did highlight a central issue around the Council's management of its software licenses which has been referred to IT management.
Priory Woods Special School 20 Nov 2014	Wellbeing, Care and Learning	Strong	0	0	2	Based on the audit work undertaken, an effective system of internal control is in operation and is being applied consistently with only two minor issues to be addressed noted.
St Gerards Primary School 19 Feb 2015	Wellbeing, Care and Learning	Strong	0	0	3	Based on the audit work undertaken, an effective system of internal control is in operation and is being applied consistently.
Purchasing Cards 19 Feb 2015	Corporate and Commercial Services	Moderate	0	3	2	Based on the audit work undertaken, many of the required controls were found to be in place and effective. However, the system does not enforce the need to follow its inbuilt receipting and authorisation controls. There is a need for officers in Procurement to work with the services to maximise the system's benefits for service efficiency and budget

PROTECT/IMPACT LEVEL 1

Audit Title	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
						monitoring and to ensure that no delays, duplication or omissions in purchasing occur. The audit made recommendations concerning the evidencing of review and approval where only a sample of transactions has been inspected and the discontinuance or streamlining of other existing recording systems to avoid duplication.
Safeguarding Adults 02 April 2015	Wellbeing, Care and Learning	Moderate	0	4	4	An acceptable internal control environment is in operation. Controls were found to be operating well in terms of ensuring that service users are receiving appointeeship and Independent Living Fund monies within the required time scales. From the sample testing carried out, the correct amounts were seen to have been paid into service users' accounts. Historically, there has been a lack of a reconciliation process taking place relating to appointeeship and Independent Living Fund accounts to bank account records. The Management Support Officer is currently undertaking work to retrospectively reconcile the Estates bank account, and the same exercise will need to be done with regards to Independent Living Fund accounts.
Council Tax and Business rates 20 Feb 2015	Corporate and Commercial Services	Strong	0	0	0	Based on the audit work undertaken, an effective system of internal control is in operation. Valuation / rateable values of properties held on Northgate are regularly updated with information provided by the Valuation Office, and discounts and exemptions awarded are in accordance with Council policy & prescribed limits. Timetabled mechanisms are in place to follow up on missed payments and in addition to this, in accordance with the Council's partnership agreement with Mouchel Business Services, the team was also seen to be monitoring and reporting on collection rates.
Compliance with Legislation 02 March 2015	Corporate and Commercial Services	Good	0	1	3	The audit work undertaken examined the Council's health & safety procedures and found that an effective system of internal control is in operation although is not always applied consistently, due to recent structural and departmental changes within the Council. The main issues identified during the audit relate to the need for to review and update the Health & Safety policies both corporately and departmentally (part of this has been achieved since the completion of the audit work), to undertake a value for money review before the health & safety function is brought back in-house in 2015/16 and to

PROTECT/IMPACT LEVEL 1

Audit Title	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
						ensure that all health & safety training is recorded and retained appropriately.
Care at Home 05 March 2015	Wellbeing, Care and Learning	Moderate	0	2	4	An acceptable internal control environment is in operation, but there are a number of areas where further improvements could increase its effectiveness. The Auditor found that, for the sample selected, some providers were charging the Council an incorrect (lower) amount for the care at home provided than had been agreed. However there is no process currently in place at the Council to check that invoices received for care at home are being charged at the correct rate or that they are reflecting the correct number of visits per client. As there is not a call monitoring process in place, the Council cannot currently verify that visits have taken place as part of the agreed package of care, however management do have plans in place to rectify this.
Prince Bishop School 31 March 2015	Wellbeing, care and Learning	Cause for Concern	0	8	4	The Auditor identified that there was inadequate management of risk in relation to compliance with both Human Resources (HR) and purchasing processes. Improvements needed to be made to these areas in order to ensure the control environment is effective. A number of the actions have since been implemented and action is underway to address the remaining recommendations.
Pension Fund Investments 22 April 2015	Corporate and Commercial Services	Good	0	2	0	Audit testing confirmed that there are robust controls in place within record keeping, levels of authorisation and segregation of duties. The only areas identified where existing controls could be strengthened related to the reconciliations of investments to SAP, and the audit control return not being signed by the Head of Investments on a timely basis. Action will be taken in response to the recommendations.
Vehicles, Fuel and Tools 14 April 2015	Corporate and Commercial Service	Moderate	0	4	5	Based on the audit work undertaken, an acceptable internal control environment is in operation. The main issues identified during the audit related to the lack of regular vehicles and high value light plant asset reconciliation being performed between the Council's Main Asset Register (SAP) and the Tranman Fleet Management System at the end of the financial year. Another issue related to the need for disposal records for vehicle and light plant to have evidence of the appropriate authorisation and for the sales income

PROTECT/IMPACT LEVEL 1

Audit Title	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
						to be credited to the Capital Receipt Fund. The Auditor also identified that there needs to be evidence that inventory records are being more regularly and thoroughly checked by management.
Value for Money – Environment and Community Services 06 May 2015	Economic Development and Communities	Moderate	0	2	1	The Auditor identified that although some progress had been made by the service area to develop a unit cost for both repairs and maintenance and cleaning services (Property Services), a formal exercise still has to be undertaken to further develop the work previously carried out in 2013. Appropriate service standards are yet to be identified for cleaning and no effective benchmarking has been undertaken with national/local providers. Whilst savings targets are predicted to be met by 2017/18, the implications for future service delivery have not yet been fully determined. The audit recommendations are to be addressed via a support service costing exercise and the Service Promise document due to be presented in June 2015.
Payroll 04 June 2015	Corporate and Commercial Services	Strong	0	0	3	Based on the audit work undertaken, an effective system of internal control was found to be in operation. Of the areas examined, the only issues highlighted were the continued lack of an up to date signatory listing (which should be addressed via Agresso) and minor recommendations relating to the further strengthening of access and anti fraud controls.
Debtors 15 June 2015	Corporate and Commercial Services	Moderate	0	6	1	Overall, an acceptable internal control environment is in operation but the Auditor concluded that some controls required further improvements, with the responsibilities of particular individuals needing to be reinforced, to ensure that individual budget holders are held accountable for the management of debts raised within their respective service areas. The delays in addressing the recommendations of the previous audit report have been exacerbated by the forthcoming system change from SAP to Agresso, as data transferred over to the new system will need to be both accurate and complete, with housekeeping processes being fit for purpose. For debtors this is timetabled to take place as part of the second phase of implementation scheduled for June 2015. The Assistant Director is addressing all of the findings in the report.
Creditors	Corporate and	Moderate	0	4	2	Overall, an acceptable internal control environment is in operation

PROTECT/IMPACT LEVEL 1

Audit Title	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
15 June 2015	Commercial Services					although the Auditor has concluded that controls surrounding the management of the Council's creditor processes still require some improvement. Service Managers/budget holders in particular need to comply with appropriate policies and procedures including ensuring that all regular housekeeping and associated monitoring is undertaken in relation to all purchase orders raised in their respective areas. The delays in addressing the recommendations made in the previous audit report have been exacerbated by the forthcoming system change from SAP to Agresso, as data transferred over to the new system will need to be both accurate and complete, with housekeeping processes being fit for purpose. For creditors this is timetabled to take place as part of the second phase of implementation scheduled for June 2015. The Assistant Director is addressing all of the findings in the report.
Capital Accounting 15 June 2015	Corporate and Commercial Services	Good	0	3	2	The overall system of financial control was found to be effective. There is a need to clarify the schools' general understanding of the capitalisation process and the Auditor noted a lack of guidance available to assist in this process. This means that the asset register does not accurately reflect school assets, as there are instances of expenditure which should have been classified as capital but have instead been misclassified as revenue.
Main Accounting	Corporate and Commercial Services	Moderate	0	2	4	Based upon examination, TVAAS identified that several holding account balances exist which have not been regularly cleared at previous year ends and which have continued to have been brought forward with some of these cases going back to 2001/02. The overall balance at the time of the testing means that action needs to be taken by management to investigate the discrepancies and determine the appropriate write off actions to be taken under the circumstances.
Treasury Management 15 June 2015	Corporate and Commercial Services	Strong	0	0	1	All policies and procedures were found to be in place, were sufficiently well detailed, and complied with CIPFA requirements although it was found that the Treasury Management Practices (TMPs) and the Anti- fraud Policy contained some out of date references to job roles and titles which require updating.
Budgetary Planning and	Corporate and	Good	0	1	5	Based on the audit work undertaken, an effective system of internal

PROTECT/IMPACT LEVEL 1

Audit Title	Directorate	Opinion	Recommendations			Comments
			P1	P2	P3	
Control 15 June 2015	Commercial Services					control is in operation but the Auditor made some suggestions to further improve the control environment. The budget monitoring reports have been streamlined in comparison to those previously produced, but additional changes could be implemented in order to further simplify, improve the clarity of and reduce the resource required to produce the reports.
Pension Fund Administration 15 June 2015	Corporate and Commercial Services	Strong	0	0	0	This year's audit testing confirmed that all administrative duties carried out in relation to the management of the Pension Fund were performed effectively, demonstrating that high levels of control and effective segregation of duties continue to be in place throughout the system. Reconciliations are now being undertaken on a timely basis by the Pension Fund Accountant, and there were no concerns raised in this area.
	Total		105	0	47	58

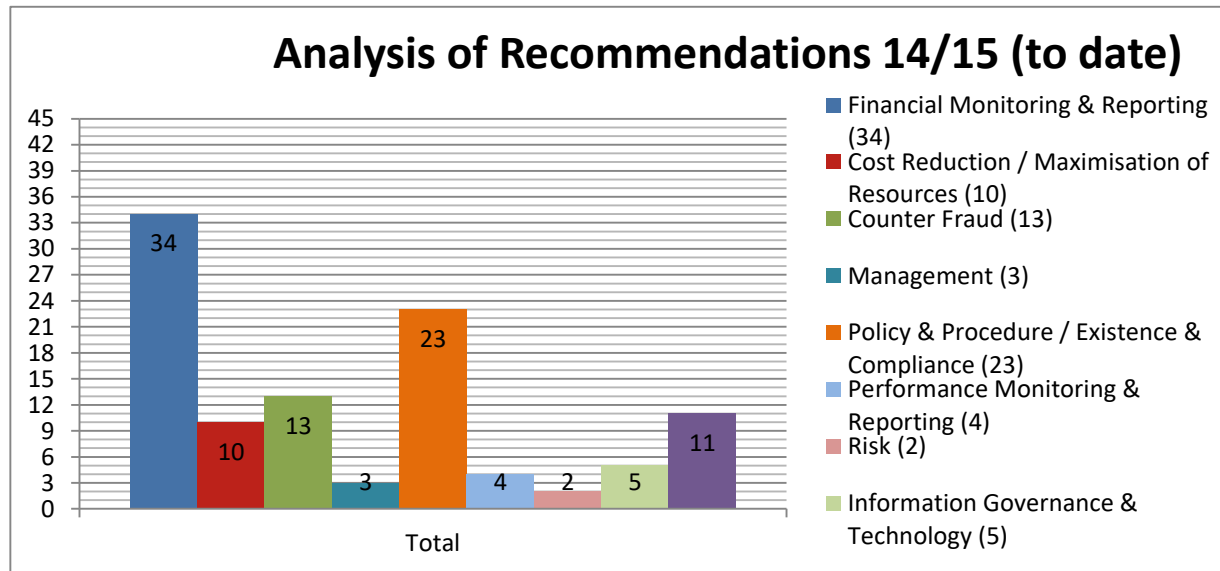
Of the 105 recommendations detailed above, none were ranked as Priority 1.

The table below details the provisional audit opinion (where known) for each of the remaining audits from the 2014/15 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.

Audit Title	Draft or Indicative Opinion
Project Management	Cause for Concern
Housing and Council Tax Benefits	To be confirmed (TBC)
Contract Management	TBC
Information Governance	Moderate
IT Governance	TBC
Development Control	TBC
Leisure Centres, Parks and Cafes	TBC
Safeguarding Young People	Good
Safeguarding Children	Good
Health Outcome Delivery	Moderate

PROTECT/IMPACT LEVEL 1

APPENDIX B - The table below highlights the type of issues being found during 2014/15



PROTECT/IMPACT LEVEL 1

APPENDIX C - Performance Target Outturn for 2014/15

<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 2015.	Not achieved 81% (2014:82%)
2) To achieve an average customer satisfaction survey score	3.5	4 is the highest possible score.	Achieved 3.94 (2014: 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 100% (2014:98%)
4) % of draft reports issued within 15 days of the end of fieldwork	85%	Target increased from that included in SLA with Mbro due to last year's performance exceeding target.	Not Achieved 84% (2014:91%)
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).	Achieved Seniors average 89% (2014: 82%) Auditors average 92% (2014: 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 4.4 months (2014: 4.2 months).

PROTECT/IMPACT LEVEL 1

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 41% (2014: 49%) delivered under budget or 62% (2014:76%) assignments are currently being delivered either within budget or only a day in excess.
---	------	--	--

Auditor Productivity

	31/03/2012	31/03/2013	31/03/2014	31/03/2015
Average number of productive days per member of audit team	157	176	189	189
% Productivity (based on working days available after annual leave and public holidays)	72%	80%	81%	84%
% Productivity (based on working days available after annual leave, public holidays, sickness and authorised absence)	75%	82%	83%	87%

PROTECT/IMPACT LEVEL 1

APPENDIX D – SIGNIFICANT VARIATIONS TO THE 2014/15 INTERNAL AUDIT PLAN AND APPLICATION OF CONTINGENCY TIME

The following table details areas examined during 2014/15 that were not included on the original internal audit plan.

Audit area	Estimated days	Time taken from	Reason
Service level Agreement review	4	Counter Fraud Reviews	A review to confirm that the objectives of the service level agreement were being achieved.
St Alphonsus School	5	Counter Fraud Reviews	A review of the contracting, purchasing procedures in response to issues raised. Review requested by the Director of Wellbeing, Care and Learning.
Empty Homes grant certification	1	Follow up	To provide assurance on the grant statement.
Adoption reform grant certification	1.5	Follow up	To provide assurance on the grant statement.
Youth Service Investigation	15	Child Poverty audit and Meetings and Advisory Contingency	An investigation into the validity of time and travel expenses incurred. No evidence of deliberate misuse was found although issues relating to adequate record keeping were noted.

VARIATIONS TO 2014/15 AUDIT PLAN

The table below details those audits that are proposed to be deferred to 2015/16.

Audit Title	Original Days Planned	Comments
Leisure Management System	15	This audit was requested to be deferred due to the current level of system implementation. 5 days were reallocated to a more in depth audit on Vehicles, Fuel and Tools.
Workforce and Service Demand Planning	10	The audit has been deferred to 2015/16 at the request of WCL DMT and the time has been applied to audit involvement in an investigation at one of the Borough's schools.

PROTECT/IMPACT LEVEL 1

Audit Title	Original Days Planned	Comments
Child Poverty	20	The audit has been deferred to 2015/16 at the request of WCL DMT and the time has been shared between two investigations in the directorate – audit involvement in an investigation at one of the Borough's schools and an investigation in the Youth Offending Service.
Risk Management	15	Due to a delay with the implementation of the action plan (which was produced following an external review), the audit has been deferred into 2015/16 to allow additional time for the recommendations to be implemented.
Property/Asset Management	20	At the request of the Assistant Director, this audit has been deferred to 2015/16 to allow for a report on the management of the Council's land and assets to be submitted to CMT and the Executive. The audit in 2015/16 will review the asset management strategy and the asset disposal protocol.
Mouchel Contract	20	Due to the ongoing discussions around future delivery, this audit was no longer considered appropriate for 2014/15.
Integrated Adults System/Controcc	20	This audit has been deferred to 2015/16.
Adult Social Care Payments	20	This audit has been deferred to 2015/16.
Hubs Governance	10	Key risk areas will be picked up in relevant 2015/16 audits.

PROTECT/IMPACT LEVEL 1

APPENDIX E – Assessment of TVAAS against Public Sector Internal Audit Standards (PSIAS) 2014/15

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 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. An updated version is due to be presented to the Corporate Affairs and Audit Committee at its meeting in September.		
1100 – Independence and Objectivity	Most	<p>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.</p> <p>Whilst feedback on the internal audit service has not formally been sought from the Corporate Affairs and Audit Committee Chair, regular performance and progress reports are submitted to Members of the Corporate Affairs and Audit Committee for their comment and review.</p> <p>The Audit and Assurance Manager reports directly to both councils' S151 Officers and has 121 meetings with the Chairs of both Audit Committees.</p> <p>Audit assignments are periodically rotated. Following the service review, there will be the availability of a wider team of staff to support rotation.</p>	Since the service has expanded to include a range of different assurance professionals meaning that there will be areas that all may not be familiar with e.g. the Bribery Act 2010.	Awareness of the Bribery Act 2010 will be included as part of the training programme provided to all Compliance Auditors and Audit and Assurance Officers.

PROTECT/IMPACT LEVEL 1

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 meetings, 121s and other group meetings. All staff complete an annual declaration of interests form and sign up to the ethics as set out in the PSIAS. The most recent update took place in May 2015.</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. Individual issues are dealt with as soon as they arise.</p> <p>The Audit and Assurance Manager had 121s with all members of the team in 2014 to discuss competencies. A similar discussion in 2015 will take place during June 2015 as a result of updated job descriptions following the service review.</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>There remain some individual examples of auditors needing to take extra care with the quality of their work.</p> <p>Limited evidence of continuing professional development by some members of the team and not all maintain their professional subscriptions. This will be picked up within individual competency discussions and the integrated team training plan. Maintaining up to date knowledge has been set as an objective in each of the team member's appraisal.</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. All staff within the team to be set measurable performance targets.</p> <p>More evidence to be obtained of continuing professional development as part of the integrated service team training strategy.</p>

PROTECT/IMPACT LEVEL 1

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. In addition, the service review has identified the need for a Quality Assurance Officer – it will be the role of this post to ensure that each assignment is completed to the Service’s standards and/or to highlight where remedial action is required.</p> <p>The internal audit service has always had various performance measures both for the team and individually. All individuals of the integrated Team will have suitable performance measures. Some of the measures are defined by the service level agreement with Redcar and Cleveland Council.</p>	<p>The QAIP has identified improvements required to the thoroughness of the review process. There are also some housekeeping issues to be addressed, particularly since the change in audit systems, i.e. the need for all audit and assurance staff to maintain the system in terms of inputting relevant information on a timely basis.</p>	<p>The QAIP to be maintained and monitored by the new Quality Assurance Officer role and feedback provided to staff as part of the ongoing 121 and appraisal process.</p>

PROTECT/IMPACT LEVEL 1

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 internal 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, Audit Committee Members, External Audit.</p> <p>Audit plans are flexible and include contingency time. Variations are reported to both councils' Audit Committees.</p> <p>The audit plan also differentiates between audit, critical friend and other productive work.</p> <p>Assurance mapping exercise undertaken at Redcar.</p>	<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 the Council.</p> <p>The audit manual requires updating to reflect the new integrated Service.</p> <p>Utilise the risk scoring of the audit management system to help produce an automated audit plan as a starting point for consultation.</p>	<p>The capabilities of the audit management system to be explored together with the options available regarding integrating risk and audit systems.</p>

PROTECT/IMPACT LEVEL 1

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. This will be a key role of the new Principal Compliance Officer post.	Continued performance management via 121s and appraisals.
2300- Performing the Engagement	Most	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. Most assignments are supervised by a senior member of the team. The new role of Quality Assurance Officer will monitor the completion of assignments to ensure that they are being carried out to a consistent standard.	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.

PROTECT/IMPACT LEVEL 1

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
2400 – Communicating Results	Most	The integrated service issues a number of different reports: internal audit reports, health and safety audit reports/accident reports, briefing notes etc. In order to ensure that all reports are produced to a consistent and quality standard, the format of the reports has been reviewed and revised versions will be applied for the 2015/16 audit plan. Findings of all audits are discussed with the relevant managers/officers and 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. All reports are reviewed by the main reviewer and most are reviewed 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 internal audit reports are marked according to the protective marking policy. All findings of all final reports are summarised to Governance Committee. The Audit and Assurance Manager issues an annual report including an overall opinion on the control environment.	There needs to be a consistent method of communicating the results of health and safety and internal audit reviews. The protective marking mechanism needs to be updated following changes and needs to be applied to all reports issued by the now wider service.	Escalation procedure to be agreed by CMT and DMTs. To ensure that a consistent approach is followed for all assignments classed as a compliance/assurance based audit whether it be a health and safety audit or a review of financial controls. The new Quality Assurance Officer role to monitor the roll out of a consistent process. Protective marking mechanism to be updated and implemented.
2500 – Monitoring Progress	Most	A well established process for following up agreed actions has been in place at Redcar for some time and is being implemented at Middlesbrough.	Follow up at Middlesbrough has been carried out on an ad hoc basis without any reporting to DMTs.	To implement a combined action recording and follow up process ensuring that all recommendations made by the integrated Team are captured on the system and followed up.
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.		

PROTECT/IMPACT LEVEL 1