APPENDIX 1
Tees Valley Audit & Assurance Services

Internal Audit Report

Middlesbrough Council
Internal Audit Annual Report 2015/16

Middlesbrough
moving forward

Report issued by: Helen Fowler, Audit and Assurance Manager

Date: 30 June 2016

Distributed to:

Members of the Corporate Affairs and Audit Committee

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POSITIVE ABOUT DISABLED PEOPLE

INVESTOR IN PEOPLE

Tees Valley Audit & Assurance Services

Annual Report of the Audit and Assurance Manager

2015/16

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 2015/16 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 outturn for 2015/16 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 undertook a service review in 2015 and introduced 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 2015 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 25 June 2015.

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 (Section 151) 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 during 2015/16 is that they provide **Moderate Assurance**. This opinion is based on the work performed by the internal audit team during the year 2015/16 **(Appendices A-D)** and no reliance was placed on the work of other assurance bodies in reaching this opinion.

3.3   The positive outcomes of many audits (as set out in **Appendix A**) should be noted, particularly in relation to the controls of the key financial systems. Whilst internal audit work during the year has confirmed that improvements are required to the Council's overall corporate governance framework, it is acknowledged that considerable action is now ongoing to effect such improvements. The issues detailed below have all been reflected in the Council's Governance Improvement Plan. It should also be noted that although this year's annual report includes more areas of concern than previous annual reports, this is because the audit plan for 2015/16 as agreed with the Section 151 Officer was targeted at known areas of weakness in order to identify appropriate remedial action.

3.4   During 2015/16, the following key areas, to be considered for inclusion in the Annual Governance Statement, were highlighted by internal audit work:

3.5   Improvements are required to the Council's project governance and property disposal processes in order to ensure that the control environment is effective for future projects and disposals. The Auditors have noted that the Council is already taking steps via its Governance Improvement Plan to address the project management issues identified in this and the 2014/15 Project Management internal audit report. Further information on the progress made to implement effective project management is provided at 3.9 below. The actions included in the Governance Improvement Plan in relation to these areas include a review of the assets disposal process to ensure robust governance arrangements by ensuring the process provides effective consideration of public contract regulations in each disposal and effectively evidences consideration of best

value and objectives. A further action includes a review the section 106 framework process to ensure that it provides an appropriate level of control, monitoring, accounting and recording of section 106 obligations. The target dates for both actions is September 2016. A further internal audit assignment is due to commence at the end of June 2016 to review the progress made to implement the remedial action required and a follow up report will be provided at a future meeting of this Committee.

3.6   Whilst controls in relation to Members' declarations of interests and gifts and hospitality were found to be operating in accordance with established processes, improvements were recommended in order to strengthen the corporate process for ongoing management of all officer declarations.

3.7   The IT governance audit identified the need for a robust and up to date IT strategy to support the Council's vision and objectives. The Council's project governance arrangements, including IT projects, did not, at the time of the audit, support the Council's vision and objectives. The audit also identified improvements required to the way in which the cost of disaster recovery controls is accounted for at the project initiation stage for all IT projects in order to minimise the risk of overspend on project budgets. Again, the Governance Improvement Plan has identified actions in relation to implementing an ICT Strategy to support Change Management and to put in place arrangements to assist with identification, implementation and management of IT systems to aid in the Council's Transformation plans.

3.8   An audit during the year identified a number of areas where controls could be strengthened in relation to the use of freelance workers in order to ensure that best value is obtained for the Council. The relevant Assistant Director took decisive action in response to the audit findings and placed an embargo on the use of freelance workers and implemented a more robust process for the authorisation of expense claims.

3.9   The main issue identified in last year's audit report related to the need for project management to support the Council's vision and objectives and for there to be strong overall programme management of the Council's portfolio of capital projects. The Council needed to establish a project management framework together with associated procedures to be used by all officers engaged in project management or related assignments. The Council has been working to address all of the weaknesses highlighted in the report via its Governance Improvement Plan. Actions taken to strengthen the control regime have included:
•The appointment of a dedicated Change Programme Manager,
•The recent issue of a Programme and Project Management (PPM) Framework,
•The assessment, base lining, and prioritisation of all known Council projects.
•The procurement of the Project in a Box system,
•The appointment of an external provider for the delivery of PPM training,
•The introduction of the PPM steering group which comprises of membership from across the Council and includes TVAAS.

3.10   The opinions used by TVAAS during 2015/16 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.

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 Audit and Assurance Manager has since added a number of additional measures. Performance against all is detailed in **Appendix E.**

4.2   **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 2015/16 provided sufficient flexibility and contingency to enable a number of variations to the agreed audit plan to take place. **Appendix F** details the main variations to the version of the plan originally agreed in April 2015. It should be noted that not all of the assignments in **Appendix F** replaced planned audits as each annual audit programme includes a contingency allocation of time for dealing with issues as they arise.

4.3   **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 has a staffing resource of 18.6 staff. 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.

4.4   **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 service against the criteria as set out in the Public Sector Internal Audit Standards (**Appendix G).** Feedback on various audits has been provided as below:

The Audit and Assurance Officer has carried out a very thorough investigation and highlighted a number of areas for concern.The report provides me with a clear path to resolve these issues.

Many thanks for completing the audit in the short time you were in school. It was a relaxed approach with a very detailed examination of the systems.

The Auditor had a very calm and reassuring manner that put me at ease straight away. Conducted the audit in a very professional and efficient manner.

The audit process itself and how this was conducted was made very straightforward by the Audit and Assurance Officer's ability to focus in on the important processes within a very complex legislative area – I was very impressed at how quickly the Audit and Assurance Officer gained knowledge and understanding of the process.

The Audit and Assurance Officer has been extremely helpful throughout the audit process this year…the Audit and Assurance Officer's workpapers were clear and easy to understand and required minimal questions from us. The Audit and Assurance Officer always replied to us on a timely basis when we had queries and has made the process easy from our side.

The audit was run in a timely professional manner by the Auditor who understood his field of expertise…I was happy with the audit process. Discussions with the Auditor were extremely useful and it is good to know that I have a contact for advice in area that has specific knowledge.

4.5   **Appendices**

Appendix A – Summary of final audit reports issued 2015/16
Appendix B – Type of recommendations made during 2015/16
Appendix C - Final reports with a Cause for Concern 2015/16

Appendix D – Priority 1 recommendations 2015/16
Appendix E – TVAAS performance outturn 2015/16
Appendix F – Variations to the 2015/16 audit plan
Appendix G – Assessment of TVAAS against the Public Sector Internal Audit Standards

APPENDIX A (1) – COMPLETED AUDITS/FINAL REPORTS ISSUED 2015/16

Audited System /Service	Directorate	Assurance Opinion	Priority			Draft Date	Final Date
			P1	P2	P3		
Acklam Hall – Value for Money	EDC	Moderate	0	0	0	14/08/15	16/09/15
Breckon Hill Primary School	WCL	Strong	0	0	1	09/10/15	06/11/15
Captain Cook Primary School	WCL	Strong	0	0	1	28/09/15	29/10/15
Registrar's Service	CCS	Strong	0	0	2	17/08/15	08/10/15
Youth Offending Service	WCL	Moderate	0	5	1	03/07/15	25/09/15
Abingdon Primary School		Good	0	0	2	17/11/15	18/11/15
Building Control	EDC	Good	0	2	4	16/12/15	14/12/15
Bereavement Services	CCS	Moderate	0	6	3	12/11/15	23/12/15
Coroner's Service	CCS	Good	0	2	1	10/12/15	18/12/15
Project Governance and Property Disposals	CCS	Cause for Concern	1	0	0	18/09/15	26/01/16
Holmwood Special School	WCL	Strong	0	0	3	23/12/15	18/01/16
Newport Primary School	WCL	Good	0	0	3	17/11/15	19/11/15
St Pius Primary School	WCL	Strong	0	0	0	10/12/15	15/12/15
Bus Station and CCTV	CCS	Good	0	3	1	15/01/16	29/01/16
Travel and Subsistence	CCS	Good	0	1	3	17/11/15	04/02/16
IT Governance	CCS	Cause for Concern	0	6	0	23/11/15	12/02/16
Declaration of Interests/Gifts/Hospitality	CCS	Cause for Concern	0	2	5	12/11/15	01/03/16
Transporter Bridge	EDC	Moderate	0	4	2	25/02/16	17/03/16
Cultural Services	EDC	Cause for Concern	0	10	4	22/01/16	30/03/16
Pension Fund Investments	CCS	Strong	0	0	1	25/02/16	12/04/16
Council Tax and Business Rates	CCS	Good	0	1	0	11/01/16	14/04/16

Audited System /Service	Directorate	Assurance Opinion	Priority			Draft Date	Final Date
			P1	P2	P3		
Ayresome Primary School	WCL	Good	0	1	3	26/01/16	19/04/16
Ayresome Industries	CCS	Cause for Concern	0	13	0	18/12/15	26/04/16
Child Exploitation	WCL	Good	0	0	3	29/03/16	05/05/16
Safeguarding - Guardianships	WCL	Good	0	3	0	10/05/16	25/05/16
Service Continuity	CCS	Good	0	3	0	14/04/16	18/05/16
Treasury Management	CCS	Strong	0	0	2	13/04/16	24/05/16
Liquid Logic Adults Care Management System	CCS	Strong	0	0	0	28/04/16	26/05/16
Total		108	1	62	45		

An audit of Trinity Catholic School was carried out before it became an academy. The results of that audit have therefore not been included above.
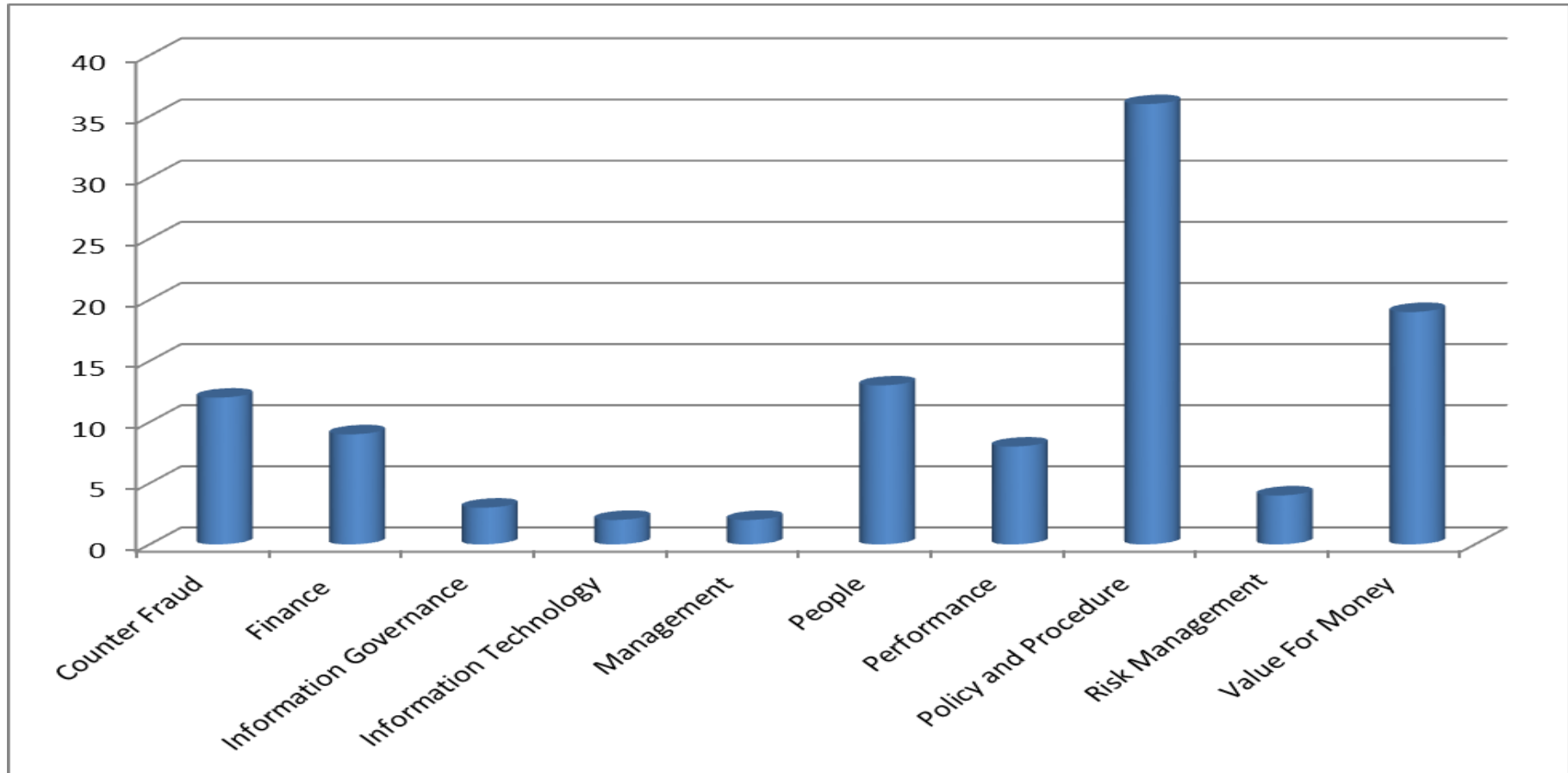
Of the 108 recommendations detailed above, one was ranked as Priority 1.

APPENDIX A (2) 2015/16 AUDIT REPORTS IN DRAFT

The table below details the provisional audit opinion (where known) for each of the remaining audits from the 2015/16 audit plan. The fieldwork for most of these audits has been completed but the reports are still at draft stage and therefore awaiting final agreement with the relevant officers.

Audit Title	Draft or Indicative Opinion
Town Hall and Theatre Refurbishment – draft issued 20 May 2016	Moderate
Capital Accounting – draft issued 26 April 2016	Strong
Housing and Council tax benefits - ongoing	Good
Payroll – draft issued 1 June 2016	Strong
Trading Standards – draft issued 27 May 2016	Strong
School Readiness – draft issued 24 May 2016	Strong
Officer Decision Making – draft issued 17 May 2016	Good
Change Programme -	Moderate
Residential Homes – draft issued 19 May 2016	Moderate
Liquid Logic Children's Care Management System – draft issued 28 April 2016	Strong
Creditors	Cause for Concern
Debtors	Cause for Concern
Main Accounting	Cause for Concern
Pension Fund Administration	Strong
Members' Allowances	To be confirmed
Middlesbrough Manager/Appraisals	Good
Social Care Payments	Cause for Concern
Selective Landlord Licensing	Strong

APPENDIX B - The table below highlights the type of issues being found during 2015/16 (based on 108 recommendations from 2016/17 audits issued in final)

APPENDIX C – FINAL INTERNAL AUDIT REPORTS 2015/16 – CAUSE FOR CONCERN

Audit Title	Summary
Project Governance/Property Disposals	The audit identified that improvements needed to be made to the Council's project governance and property disposal processes in order to ensure that the control environment is effective going forward. Whilst there was no evidence of impropriety identified during the audit, it was the view of the Auditors that inadequate controls had left the Council exposed to challenge and criticism in the areas of project management and of property disposals. The Auditors have since noted that the Council is already taking steps via its Governance Improvement Plan to address the project management issues identified in this and the recent Project Management audit report as senior officers were previously aware that improvements would be required in these areas.
IT Governance	The main issues identified during the audit of the Council's governance of IT projects related to the lack of an updated and robust IT strategy to support the Council's visions and objectives. The Council's project governance arrangements, including for IT projects, also need to support the Council's vision and objectives. The audit noted that the Council did not plan or account for the cost of disaster recovery controls at the project initiation stage for all IT projects which increases the risk of overspend on project budgets.
Declarations of Interest	Improvements need to be made in this area in order to ensure the control environment is effective going forward including the requirement to demonstrate any ongoing management and monitoring of officer declarations being taken. However, it was noted that the controls in relation to Members' declarations of interests and gifts and hospitality were found to be operating in accordance with established processes.
Cultural Services	The service area had not adhered to the Council's policy and procedures in relation to the appointment of freelance workers and temporary staff. The audit identified a number of areas where controls needed to be strengthened in relation to the use of freelance workers in order to ensure that best value is obtained for the Council. As a result of the audit, the Assistant Director, Economic Development placed an embargo on the use of freelance workers and implemented improved processes for the authorisation of all pending and future expenses claims.
Ayresome Industries	Whilst not a material area to the Council, the main issues arising from the audit related to the lack of a clear strategy/purpose to outline how the business should operate. Budgetary control was identified as requiring improvement with the need for income targets to be based on clear and realistic targets.

APPENDIX D – PRIORITY 1 ACTIONS 2015/16 (FINAL REPORTS ONLY)

Audit Title	Priority 1 Action
Project Governance and Property Disposals (*please note that a follow up review of this audit is about to commence as part of the 2016 audit plan*)	In conjunction with the recommendations made in the internal audit report on Project Management, Council senior management should, as a matter of urgency, develop an action plan to effectively address all of the issues highlighted in this project governance and property disposals report. The main issues highlighted have resulted from a lack of effective frameworks and due diligence over processes and a lack of clear and central audit trails to detail rationale behind decisions made. This action plan should be approved in the first instance by Council management and the Council's Section 151 Officer and ultimately CMT. The action plan should include the following: • To implement improvements to ensure an effective asset disposal framework; • To carry out post evaluation reviews for each project/scheme - to assess best value and achievement of objectives; • To review and improve the framework for the control, monitoring, accounting and recording of Section 106 obligations; • To ensure that CMT meeting minutes clearly set out the decision made and the reason for that decision. It is further suggested that TVAAS Auditors monitor the directorate's progress against the action plan to ensure that proposed actions will address the issues raised and that they are being taken forward in an appropriate and timely manner with required evidence of regular progress being submitted on an agreed milestone basis. Actions have been included in the Governance Improvement Plan to address this recommendation.

APPENDIX E - Performance Target Outturn for 2015/16

Indicator	Target	Measurement	Current Status (to be updated prior to Corporate Affairs and Audit Committee)
1) Percentage completion of the agreed annual audit plan	100%	Complete = draft report or other deliverable issued by 30 April 2015.	89% (2014/15:81%)
2) To achieve an average customer satisfaction survey score	3.5	4 is the highest possible score.	3.64 (2014/15: 3.94)
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.	100% (2014/15:100%)
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.	63% and 53% finals issued within 20 days of the draft date (2014/15:84%) Action – escalation process to be reviewed and agreed with the S151 Officer and communicated again across all directorates.
5) % Auditor productivity	Audit & Assurance Officer – 90%; Compliance Auditor – 92%	The number of available productive days is calculated for each member of the team, taking into account estimated holiday, sickness, training, team meetings, appraisals, management and administration, disruptions etc. This results in an expected number of productive days per officer.	Audit and Assurance Officers average 94% (2014/15 89%) Compliance Auditors average 84% (2014/15: 92%) Reduced productivity due to training programme and one case of long term absence. Please also see table below.
6) Time taken to complete an assignment	Audit start date to final report issued date	Target is 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 15/16 completed assignments) is 4.4 months (2014/15: 4.4 months).

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.	62% (2014/15: 41%) delivered under budget or 79% (2014/15:75%) 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	31/03/2016
Average number of productive days per member of audit team	157	176	189	189	202
% Productivity (based on working days available after annual leave and public holidays)	72%	80%	81%	84%	87%
% Productivity (based on working days available after annual leave, public holidays, sickness and authorised absence)	75%	82%	83%	87%	89%

APPENDIX F – SIGNIFICANT VARIATIONS TO THE 2015/16 INTERNAL AUDIT PLAN AND APPLICATION OF CONTINGENCY TIME

The following table details areas examined during 2015/16 that were not included on the original internal audit plan (or where significant additional time was required).

Audit area	Estimated days	Time taken from	Reason
Ayresome Industries	10 days	Agresso audit allocation	Requested by the Assistant Director Environment, Property and Commercial Services
Homes and Communities Grant	1 day	EDC Contingency	Grant certification
Local Transport Plan Grant	2 day	EDC Contingency	Grant certification
NQSW Grant	2 day	EDC Contingency	Grant certification
Project Governance and Property Disposals – additional time required	97 days	Planned audits on Agresso, Property/Asset Management, Neighbourhood Governance and CCS contingency, counter fraud contingency.	This was a detailed piece of work covering a number of different schemes and property disposals.
Cultural Services	20 days	EDC Contingency	Requested by the Assistant Director Economic Development – to examine compliance with Council HR policies.

The following audits were not completed from the 2015/16 audit plan:

Audit Title	Comments
Safeguarding Children	Included time allocation in 2016/17.
Care Act	Deferred
Children with Disabilities	Audit not completed.
Property Management	Time allocated to the Project Governance/Property Disposals audit
Governance and Neighbourhood Restructure	Time allocated to the Project Governance/Property Disposals audit
Risk Management	Deferred to allow the new risk management framework to be embedded into the Council's governance and for Internal Audit to provide 'critical friend' input.

APPENDIX G – Assessment of TVAAS against Public Sector Internal Audit Standards (PSIAS) 2015/16

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 first approved by the Audit and Governance Committee in Dec 2013 and is updated annually, the most recent update being approved by the Corporate Affairs and Audit Committee at the meeting on 24 September 2015. The Charter sets out the reporting relationships, position and accountability of internal audit. It recognises the mandatory nature of the PSIAS. A further updated version is due to be presented to the Corporate Affairs and Audit Committee at its meeting in September 2016.		

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
1100 – Independence and Objectivity	Most	The Service is independent and staff declare any potential conflicts of interest as and when they arise although all staff are specifically asked to complete a declaration form on an annual basis (most recent is June 2016). Staff do not work on those areas where there could be a potential conflict of interests. Positive feedback on the internal audit service has been provided by the Corporate Affairs and Audit Committee at Middlesbrough and by the Governance Committee at Redcar and Cleveland during the year. Regular performance and progress reports are submitted to Members of both Committees for their comment and review and no concerns have been noted. The Audit and Assurance Manager reports directly to both councils' S151 Officers and has 121 meetings with the Chairs of Audit Committees at both councils. Audit assignments are periodically rotated although auditors may be assigned to the same assignment for up to three years.	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. Although documents relating to the Bribery Act have been shared with the Team, training has not been undertaken and will be undertaken during summer 2016.	Counter Fraud update session to be provided to all members of the Team by September 2016. This will cover the Bribery Act 2010, Fighting Fraud Locally Strategy and the updated policies on whistleblowing and anti fraud and corruption for both councils.

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
1200 – Proficiency and Due Professional Care	Most	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 June 2016. The Audit and Assurance Manager is a qualified Chartered Certified Accountant (FCCA) and a qualified Internal Auditor (CMIIA) and has both private sector and local government experience. Overall customer feedback is very positive as demonstrated by the average scores on returned customer satisfaction surveys however some concern regarding factual accuracy has been expressed during the year by chief officers in relation to three reports that had an overall opinion of Cause for Concern. Maintaining up to date knowledge was specifically set as an objective in appraisals for 2015/16.	Data analysis techniques have not been applied as much in the last year due to the prohibitive cost of renewing the relevant software. There remain some individual examples of auditors needing to take extra care with the quality of their work. This continues to be managed by HR processes. Whilst most staff involved in internal audits have completed relevant exams (usually AAT), most have not maintained their professional subscriptions. There is a need to revisit the professional qualifications of the Team since the IIA recently reviewed its qualifications.	Data analysis capabilities to be reviewed with advanced excel training where required. Individual performance to continue to be addressed via 121s/appraisal and performance framework. Qualifications of Team to be reviewed in line with IIA revised qualification programme and additional training undertaken where funding available.

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
1300 – Quality Assurance and Improvement Programme (QAIP)	Most	In accordance with the PSIAS, the Service has a QAIP in place. In addition, the service review in 2015 introduced a new role of Quality Assurance Officer – it has been 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. The service has a two stage review process – first stage is a detailed review of work programme and draft report by the relevant audit lead; second stage is a review of the draft report by the Audit and Assurance Manager. The internal audit service has always had various performance measures both for the team and individually. Some of those measures have been defined by the service level agreement with Redcar and Cleveland Council, others have been added in response to areas where improvement is required.	Whilst usage and completion of the audit management system has improved during the year, there are still some areas that need to be improved. Audit leads in particular need to be more vigilant at ensuring that all requisite information is input on a timely basis. Appropriate objectives have been set in recent appraisals.	The QAIP to be updated and feedback provided to staff as part of the ongoing 121 and appraisal process. The Audit and Assurance Manager to communicate specific improvement measures to the audit leads. The areas to improve include the setting of realistic but challenging assignment target dates, improved depth of review of draft reports, improved monitoring of completion of assignment.

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
2000 – Managing the internal audit activity	Most	The internal audit staff perform assignments in accordance with the audit and assurance manual. The audit plan for each council is based on the key risks as set out in the Councils' risk registers. Both audit plans are consulted on with the S151 Officer, all senior managers, Audit Committee Members, External Audit. Audit plans allow flexibility and include contingency time. Variations are reported to the relevant council's Audit Committee. Audit and Assurance Manual updated during the year to reflect the integrated service.	Whilst a full formal risk assessment exercise has not been completed recently, all areas included in the audit plans are based on the content of the risk registers and the key priorities of each Council. It is therefore not considered that a detailed risk assessment exercise would add sufficient value to justify the resource.	The capabilities of the audit management system have been explored but it is considered that the current consultative approach of compiling the Plan and basing the content on risk registers ensures that both plans are directed towards key risks and priorities.
2100 – Nature of Work	Met	All internal audit work is aimed at improving the governance and control environments of both councils. Audits or critical friend reviews 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.		

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
2200- Engagement Planning	Scope to Develop	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.	The setting of target dates (i.e. start date, draft report issued date etc.) has not been well controlled during the year and is an area that audit leads must improve on for 2016/17.

Concerns have been expressed by one council that there is a need for more communication regarding the understanding of what internal audit is, its role and how opinions are formed etc.

The scope and coverage of financial and material systems audits requires an updated approach to ensure that testing covers the key risks and priorities. | Improvement set as an objective in appraisal documentation. Standards of compliance circulated to audit leads. Audit leads have been advised that they cannot delegate this responsibility.

A guide has been produced accordingly and will be provided to all audit clients at the outset of an audit. The information will also be available on the Intranet.

All TVAAS staff have been asked to ensure that all auditees understand at the start of an audit how the audit process will be carried out.

The Principal Compliance Officer has been set a target to review the audit approach to all financial/material system audits to ensure these audits add value. |

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
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. Quality assessments are completed by audit leads for each assignment. | Some individual assignments do not always meet the standard required due to individual performance. Whilst the review process corrects these issues, this can be time consuming. 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. |

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
2400 – Communicating Results	Most	Results of individual audits are shared in draft discussion meetings and a draft report is then issued for agreement. Further meetings may take place as required and depending on the extent of the findings raised. Each report provides an overall opinion on the level of assurance that can be given. All reports are subject to an internal review process and quality assurance checklists. Once the content of a draft report has been agreed, the final version is issued by the Team's Quality Assurance Officer. Summary of all internal audit outcomes are reported throughout the year to the Corporate Affairs and Audit Committee with more detail provided on Cause for Concern or lower reports. The Audit and Assurance Manager issues an annual report including an overall opinion on the control environment At Middlesbrough, once a report has been agreed as a final version, the assistant directors or director will schedule the report to go to a future LMT meeting.	The protective marking mechanism needs to be updated at Redcar following changes and needs to be applied to all reports issued by the service. The protective marking mechanism is still to be confirmed at Middlesbrough. Some audit reports have exceeded the target turn around dates.	Protective marking mechanism to be updated and implemented. Escalation procedure to be revisited and communicated to LMT.

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
2500 – Monitoring Progress	Most	A well established process for following up agreed actions has been in place at Redcar for some time. Outstanding actions have been reported throughout the year to each council's audit committee. All auditors/audit and assurance officers actively follow up on progress made to implement any recommendations that they have made. This information is recorded in the audit management system. P1 actions are reported on in more detail. A well established process for following up agreed actions has been in place at Redcar for some time and feeds into the quarterly performance reporting process. Middlesbrough Council is currently implementing a Governance Improvement Plan and information on outstanding actions will be provided to align with these improvements.	Follow up at Middlesbrough has been carried out on an ad hoc basis by TVAAS staff without any reporting to DMTs/LMT.	In conjunction with the Governance Improvement Plan, to agree with the Section 151 Officer and introduce an appropriate and more formal follow up procedure for all outstanding audit actions at Middlesbrough.
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. Accepted risks remain on the audit management system for reference.		