

MIDDLESBROUGH COUNCIL**COMMITTEE REPORT****CORPORATE AFFAIRS AND AUDIT****29 September 2016****Internal Audit – Progress Report****Helen Fowler – Audit and Assurance Manager****PURPOSE OF REPORT**

1. To update Members on the main findings arising from internal audit work carried out since the annual report was submitted to Members. In addition, the report will brief Members on the performance of the Council's internal audit service, Tees Valley Audit and Assurance Services (TVAAS).
2. To consider the updated position regarding the internal audit opinion on the Council's control environment for 2015/16, taking into account additional 2015/16 internal audit reports that have been issued in final since the Annual Report.

BACKGROUND

3. Internal Auditing is 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.
4. The Council's internal audit service is provided by Tees Valley Audit & Assurance Services (TVAAS), a shared service arrangement between Redcar & Cleveland and Middlesbrough Councils. Members approved the 2016/17 Audit Plan at their meeting on 30 June 2016. The total number of planned audit days for 2016/17 is 855. At the time of this report, 11% of the Plan has been completed with a number of other audit assignments ongoing and close to the draft stage. The level of completion of the audit plan is continuously monitored and resources reallocated as appropriate.
5. A service level agreement for the provision of internal audit services is in place between Redcar and Cleveland Council and Middlesbrough Council and includes a number of performance measures. Additional performance measures have since been introduced by the Audit and Assurance Manager and were selected based on the perceived development and improvement needs of the Service. The current performance against each of these measures is detailed in **Appendix 2**.

6. A brief summary of all internal audit reports issued in final, since the last update to Members of this Committee, is provided in **Appendix 1 (Table 1)**. No new Priority 1 recommendations have been made to date in 2016/17 but three are still ongoing from previous periods and the latest update to Members is provided in **Appendix 1 (Table 2)**. The Service's opinion methodology is detailed in **Appendix 3**.
7. In addition to the final audit reports issued in **Appendix 1**, TVAAS staff have been involved in a number of other areas of work (that do not result in the issue of a formal report) including detailed housing benefit count testing, coordinating the Council's involvement in the national fraud initiative (NFI) and following up on the implementation of previous audit recommendations.
8. All proposed variations to the agreed Audit Plan arising as the result of emerging issues and/or requests from directorates are communicated to the Corporate Affairs and Audit Committee for information and comment. This will ensure that audit resource remains focussed on areas of strategic importance to the Council and will reassure Members of this Committee that there is a controlled process for deviating from the agreed audit plan. No variation requests have been made to date for 2016/17.

Updated Assurance Opinion 2015/16

9. In accordance with Public Sector Internal Audit Standards (PSIAS), the Audit and Assurance Manager is required to provide an overall annual opinion on the Council's control environment. The overall level of assurance for 2015/16 was reported to this Committee in the Internal Audit Annual Report 2015/16 and was based on the audit work performed in accordance with the agreed 2015/16 audit plan. The TVAAS opinion methodology provides five possible levels of assurance – Strong, Good, Moderate, cause for Concern and Cause for Significant Concern.
10. The opinion for 2015/16 was originally assessed as Moderate in June because of
 - a) the higher number of reports issued with a Cause for Concern during 2015/16 and
 - b) the significance to the Council's overall governance and control environment of those areas where a Cause for Concern opinion has been identified i.e. key governance or financial system areas. However, at the time of the annual report, 18 reports were still in draft and therefore the opinion associated with each of those reports was still subject to discussion and possible change. Since the Annual Report, there has been a change to the draft audit opinion for four of the reports relating to key financial systems. Due to additional evidence provided and extra progress made to address the control issues identified, the individual opinions for the Debtors and Creditors reports have both been raised from Cause for Concern to Moderate; the individual opinion for Main Accounting has been raised from Cause for Concern to Good whilst the opinion for Social Care Payments has been raised from Cause for Concern to Moderate. All other draft opinions have remained the same. One draft report has not yet been issued as a final version although the associated opinion for that report is unlikely to change (Good). An updated comparison between 2015/16 and 2014/15 is set out in **Appendix 1 (Table 4)**. Taking the above changes into account, it is considered that the overall internal audit opinion for 2015/16 on the control environment can be raised from Moderate to **Good Assurance**.

11. Internal Audit, along with other assurance processes of the Council, have a statutory obligation under the Accounts and Audit (Amendment) (England) Regulations 2015 and the PSIAS to provide assurance from the work they undertake in respect to the internal control systems operating within the Council.

FINANCIAL CONSIDERATIONS

12. Redcar & Cleveland Council charges Middlesbrough Council for the provision of an internal audit service. Charges are based on a daily charge rate linked to the grade of staff involved in the audit work.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

13. There are no specific financial or ward implications arising from the Internal Audit Progress report 2016/17.

RECOMMENDATIONS

14. Members are requested to note and comment upon the:

- Findings arising from internal audit work.
- Performance of the Service.
- Updated internal audit opinion for 2015/16.

REASONS

15. The Public Sector Internal Audit Standards (PSIAS) 2030 states that the Audit and Assurance Manager must ensure that internal audit resources are 'effectively deployed' to achieve the approved audit plan and progress should be reported to the Corporate Affairs and Audit Committee.

16. 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.

BACKGROUND PAPERS

17. No background papers other than published works were used in writing this report.

AUTHOR

Helen Fowler – Audit and Assurance Manager
Telephone: 01642 771165 or 01642 729821

Address: PO Box 99A, Town Hall, Middlesbrough. TS1 2QQ
Website: <http://www.middlesbrough.gov.uk>