

COMMITTEE REPORT

CORPORATE AFFAIRS AND AUDIT

08 December 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 progress report to Members on 29 September 2016. In addition, the report will brief Members on the performance of the Council's internal audit service, Tees Valley Audit and Assurance Services (TVAAS).

BACKGROUND

2. 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.
3. 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, 34% of the Plan has been completed with a number of other audit assignments ongoing and close to the draft stage. This position is in line with that reported in December last year (31%). The level of completion of the audit plan is continuously monitored and resources reallocated as appropriate.
4. 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**. The type of measures and the associated targets will be reviewed when setting the 2016/17 internal audit plan.
5. **Appendix 1** provides:

- A brief summary of all internal audit reports and briefing notes issued in final, since the last update to Members of this Committee (**Table 1a and 1b**).
 - The number of outstanding internal audit actions that should have been implemented (according to the agreed target date) by 31 October 2016 (**Table 2**).
 - The progress to implement any outstanding priority 1 recommendations (**Table 3**).
6. The Service's opinion methodology is detailed in **Appendix 3**.
7. The main points to note from the internal audit work during this period are as follows:
- No internal audit reports with an overall assurance level of Cause for Concern or Significant Concern have been issued as a final during the period.
 - No new priority 1 recommendations have been made during the period.
 - One P1 action is still outstanding from previous periods and action is underway to address this recommendation via the Council's Improvement Plan.
 - During the period, two P1 actions for the project management audit, that were outstanding in September 2016, have been classed as implemented.
 - 5 priority 2 and 1 priority 3 actions, which should have been implemented by 31 October 2016 (or before), are currently outstanding. Progress is underway to implement the outstanding actions. This represents a considerably improved position when compared with the same time last year when a total of 109 actions were reported as being outstanding.
 - Many of the outstanding actions are also included on the Council's Improvement Plan and the auditors acknowledge the considerable work ongoing to implement this Plan. Internal audit considers that the main priorities for implementation relate to the property disposal framework and IT governance.
8. 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.
9. All proposed variations to the agreed Internal 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. To date, the only significant variation proposed to the 2016/17 audit plan is to defer the contract management audit (15 days) due to the consultancy work ongoing in this area which will examine the Council's approach to contract management. It is proposed that at least 5 of the original 15 days planned are transferred to the Compliance with

Contract Procedure Rules audit which currently has only 5 days assigned to it. This will allow a more in depth audit in this area to be carried out.

10. 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

11. 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 and recharged based on actual time spent. The overall budget for internal audit for 2016/17 was set at circa £180k.
12. The scope and breadth of future audit plans for both councils will focus on the high level governance and controls assurance assignments, retaining capacity to cover key issues such as counter-fraud. For this reason and to meet the savings requirements of both councils, internal audit has recently been subject to a service review which has included a consideration of the current grades in the structure. Although the service review will result in the deletion of three auditor posts at one level, a higher level post has been included which will be filled by an appropriately qualified and experienced auditor. Accordingly, the proposals from the review will bolster the number of staff sufficiently qualified and experienced to cope with the demands of the higher level work required by both councils.

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 and the performance of the Service.

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

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