

APPENDIX 1

Tees Valley Audit & Assurance Services

Internal Audit Report - FINAL

Middlesbrough Council Internal Audit Annual Report 2016/17



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Distributed to:

Members of the Corporate Affairs and Audit Committee

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Tees Valley Audit & Assurance Services

Annual Report of the Audit and Assurance Manager

2016/17

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 2016/17 and to express an opinion on Middlesbrough Council's overall internal control environment, based on the work carried out. The final version of this report will be submitted to the Committee in September 2017.
- b) To consider the internal audit performance outturn for 2016/17 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 2016/17.

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 30 June 2016.

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 Strategic Director Finance, Governance & Support (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 2016/17 is that they provide **Good Assurance**. This opinion is based on the work performed by the internal audit team during the year 2016/17 (**Appendices A-C**). If reliance has been placed on another assurance body in reaching this opinion, this will be noted against the relevant assignment.

3.3 Whilst internal audit work during the previous financial year (2015/16) confirmed that improvements were required to the Council's overall corporate governance framework, the action to address governance issues throughout the year to effect such improvements has been acknowledged. For the year 2015/16, approximately 154 internal audit recommendations were made of which all but one has subsequently implemented during 2016/17 (the remaining P2 action is underway). For 2016/17, 112 actions have been recommended, of which 16 have yet to be agreed (as the reports are still in draft). 63 of the remaining 96 have been implemented and action is underway to implement the remaining 33 (only 11 of which have passed their agreed target date, seven P2s and four P3s). This demonstrates the Council's commitment to improvement.

3.4 The opinion of Good takes into account that assurance can be obtained by the number of reports where the overall opinion is Strong or Good. It is noted that no priority one actions have been raised during the year and none are outstanding from previous years. Audit work has identified considerable progress to improve the project management framework which was a governance issue raised in previous years. It is highlighted however that the scope of much of the audit work during 2016/17 was focussed on the setting up of a strong governance framework, consisting of appropriate policies, procedures and frameworks for areas such as project and programme management, budgetary control and financial planning, land and property disposals and capital programme. The

Council has worked with Deloitte on its improvement plan with the latter providing positive feedback on the progress made to date.

- 3.5 Many audits undertaken during 2016/17 were able to confirm that suitable policy and procedural frameworks have been established but it was too early to be able to conclude on the extent to which such frameworks have become embedded within the Council's overall culture. The overall internal audit opinion of Good for 2016/17 is therefore an assessment of the policy and procedural framework but is not yet an assessment of the extent to which that framework is being complied with or has become embedded into the Council's culture and business as usual. Embedding and compliance will be the main focus for audit work undertaken during 2017/18.
- 3.6 The main area of governance that Internal Audit would raise as requiring further attention relates to land and property disposals. An internal audit recently carried out in this area has given an opinion of Moderate assurance. Management has acknowledged that there is still further progress to be made but given that the internal audit opinion on this area was a cause for concern in 2015/16, it is encouraging to note the progress that has been made.
- 3.7 The opinions used by TVAAS during 2016/17 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 for 2016/17 is detailed in **Appendix D**.

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 2016/17 provided sufficient flexibility and contingency to enable a number of variations to the agreed audit plan to take place. **Appendix E** details the main variations to the version of the plan originally agreed in April 2015. It should be noted that not all of the assignments in **Appendix E** replaced planned audits as each annual audit programme includes a contingency allocation of time for dealing with issues as they arise.

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 15 staff (with one vacancy). 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 F**).

4.5 Appendices

Appendix A - Summary of final and draft audit reports issued 2016/17

Appendix B - Type of recommendations made during 2016/17

Appendix C - Final reports with a Moderate Opinion (or less) 2016/17

Appendix D - TVAAS performance outturn 2016/17

Appendix E - Variations to the 2016/17 audit plan
Appendix F – Self assessment of TVAAS against the Public Sector Internal Audit Standards

APPENDIX A (1) – COMPLETED AUDITS/FINAL REPORTS ISSUED 2016/17

Audited System /Service	Directorate	Assurance Opinion	Priority			Draft Date	Final Date
			P1	P2	P3		
Cash Handling & Controls	FGS	Moderate	0	7	8	07/09/2016	30/09/2016
Thorntree Primary School	CS	Strong	0	1	3	18/10/2016	01/11/2016
Marton Manor Primary School	CS	Good	0	0	6	30/09/2016	02/11/2016
Agresso	FGS	Moderate	0	7	3	23/08/2016	03/11/2016
Lingfield Primary School	CS	Good	0	2	1	19/10/2016	08/11/2016
Pallister Park Primary School	CS	Strong	0	0	1	01/11/2016	16/11/2016
Park End Primary School	CS	Strong	0	0	1	08/11/2016	16/11/2016
Youth Employment Initiative	CS	Strong	0	0	1	29/11/2016	13/12/2016
Early Help Hub	CS	Strong	0	1	1	06/12/2016	21/12/2016
Budget Monitoring & Control	FGS	Strong	0	0	1	20/12/2016	06/01/2017
Capital Programme	FGS	Strong	0	0	1	20/12/2016	06/01/2017
Medium Term Financial Plan	FGS	Strong	0	0	0	23/12/2016	06/01/2017
Family Case Work	Good	Good	0	0	2	23/12/2016	10/01/2017
Prevention	GP	Strong	0	1	1	22/10/2016	10/01/2017
Change Programme/Project Management	FGS	Strong	0	0	0	23/12/2016	01/02/2017
Connected Persons' Placements	CS	Good	0	3	0	26/01/2017	08/02/2017
Procurement of External Residential Placements	SC	Good	0	1	0	26/01/2017	17/02/2017
Economic Growth	GP	Strong	0	0	1	17/01/2017	06/03/2017
IT Strategy/Management Framework	FGS	Good	0	3	0	16/02/2017	10/03/2017
Compliance with Contract Procedure Rules	Cross	Good	0	2	2	13/03/2016	11/04/2017
Main Accounting/Bank	FGS	Good	0	2	1	30/03/2017	13/04/2017

Audited System /Service	Directorate	Assurance Opinion	Priority			Draft Date	Final Date
			P1	P2	P3		
Reconciliation							
Payroll	FGS	Good	0	2	2	26/04/2017	07/06/2017
Pension Fund Admin	FGS	Strong	0	1	0	19/05/2017	01/06/2017
Pension Fund Investments	FGS	Strong	0	1	0	19/05/2017	01/06/2017
Council Tax and Business Rates	FGS	Strong	0	0	1	13/04/2017	15/06/2017
Safeguarding Adults Team	SC	Moderate	0	5	2	16/05/2017	20/06/2017
Debtors	FGS	Good	0	3	2	23/05/2017	26/06/2017
Creditors	FGS	Good	0	2	2	26/05/2017	26/06/2017
Capital Accounting	FGS	Strong	0	0	2	25/05/2017	30/06/2017
Housing & Council Tax Benefits	FGS	Strong	0	0	0	26/06/2017	20/07/2017
Emergency Planning	Cross	Good	0	4	3	30/06/2017	28/07/2017
Total		96	0	48	48		

Of the 96 recommendations detailed above, none were ranked as Priority 1.

APPENDIX A (2) 2016/17 AUDIT REPORTS IN DRAFT

The table below details the provisional audit opinion (where known) for each of the remaining audits from the 2016/17 audit plan. The fieldwork for all of these audits has been completed but the reports are still at draft stage and therefore awaiting final agreement with the relevant officers. The associated opinions and number of recommendations currently included may therefore change for all of the audits below.

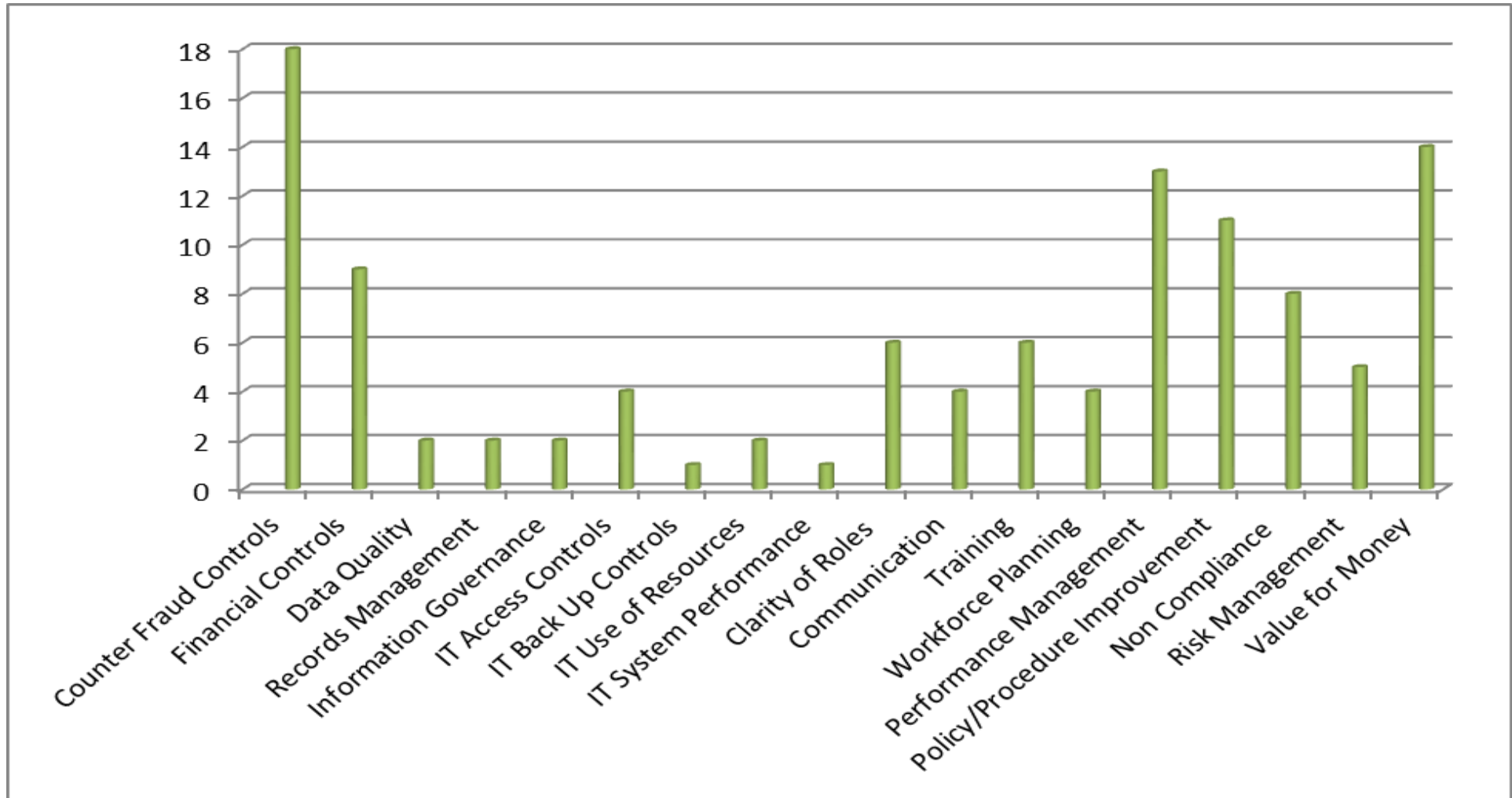
Audit Title	Draft Opinion
Asset Management	Moderate
Cultural Services	Good
Counter Fraud Policy Framework	Moderate

Appendix A (3) Additional Work

During 2016/17, considerable audit time was spent investigating various concerns raised; most of this work related to a detailed investigation into concerns raised by a whistleblower regarding the historic land and property disposals. These transactions had also been the subject of a previous audit report issued during the 2015/16 financial year; the overall assurance level of which was included in last year's annual report. The Council had incorporated the required actions into its Improvement Plan following the 2015/16 report and produced a new land and property disposal process which was approved in December 2016. The scope of this year's additional work was wider than the original audit. The report summarising the findings from the additional work was issued in final on 22 June 2016 to the Monitoring Officer and to the Strategic Director of Finance Governance & Support for consideration. The report included the recommendation that the Monitoring Officer considers the findings outlined in the report and whether those findings require him to take further action or investigation in response to the issues outlined.

In summary, the findings of this extra work confirmed the original opinion of cause for concern and would not cause the auditors (based on the scope of the original audit work) to materially change that opinion. More detail on the findings is included in the full report which will be provided to Members of this Committee.

APPENDIX B - The table below highlights the type of issues being found during 2016/17 (based on 112 recommendations from 2016/17 year (final and draft))



APPENDIX C – FINAL INTERNAL AUDIT REPORTS 2016/17 WITH AN OPINION OF MODERATE OR LESS – all of the below had Moderate Assurance

Audit Title	Summary
Cash Handling	As part of the year-end audit process Middlesbrough Council identified a potential error in its cash balances arising from cash processing. An initial review of the Cashiers Office by financial managers indicated possible weaknesses in the control environment and requested Tees Valley Audit & Assurance Service (TVAAS) to investigate the identified shortfall. The initial purpose of the investigation was subject to detailed review and analysis of the cashiers, banking and accounting records over the last two years. No major error or loss was identified from the initial investigation but a number of control issues were identified. These matters were drawn to the attention of the Interim Chief Finance Officer who agreed to develop an action plan to resolve and repair any control weaknesses in the Cashiers processes and procedures. At the time of this report, there were two P2 and 3 P3 actions where confirmation of implementation is still required. Additional audit work will confirm the status of these actions later in the financial year.
Agresso	This audit was carried out early in the 2016/17 financial year. At the time the main area of concern identified during the audit related to the need for clearly defined ownership of the system to be clarified and to address the lack of technical knowledge in house (at the time of the audit) and therefore a sole reliance on the former Project Manager. There was a need to ensure that the overall governance of the Agresso system is effective and maintained so that the system can, in the future, be adequately developed and upgraded to enable it to support the Council's objectives. It was envisaged that the appointment of the Head of Financial Planning and Support who had been allocated the responsibility for service delivery management together with the successful tender and appointment of an Application Managed Service (AMS) for Agresso would provide a significant improvement to the Agresso control environment going forward. The audit also identified a number of less significant areas to be addressed and recommendations were made accordingly, most of which have been actioned or are underway (3 P2 and 2 P3 actions require confirmation that they have been implemented).
Safeguarding Adults Team	Although there are processes and procedures in place for progressing adult safeguarding concerns and alerts, these had not been adopted entirely across teams, and there was confusion amongst staff regarding what each team within Adult Services is responsible for with regard to safeguarding alerts. A lack of consistency was noted in the way that contacts are dealt within the current Middlesbrough model and management should clarify which model of delivery should be adopted to meet the future needs of the Council. Audit testing also identified that database records are not always completed appropriately with regard to the content of the record held and that recognised timescales for progression of alerts are not being met or else that reasons for the delays are not being recorded. Performance data for monitoring timescales is not currently available but management has recognised that this is required. At the time of the audit, there was no specific reference to safeguarding adults on the corporate risk registers and it was recommended that this be reviewed after the implementation of revised procedures.
Counter Fraud Policy Framework (DRAFT)	The audit identified areas where the Council's counter fraud policy framework could be further developed to help strengthen the control environment and Management are addressing these areas. Audits of the financial systems have confirmed that there is a good control framework in place which, if complied with, will reduce the likelihood and impact of loss through fraud and error. There is currently no evidence to suggest that the Council has or is suffering significant losses through fraudulent activity but there may be scope for the Council to be more proactive in demonstrating a zero tolerance approach to fraud, bribery and corruption. As with many local authorities, increasingly limited resources has affected the level of proactive counter fraud work that can be undertaken but it is suggested that consideration be given to carrying out some level of proactive work (even if only

	in one of the national fraud risk areas e.g. council tax discount) as this could result in financial gains and help demonstrate that the Council takes immediate and decisive action in response to any reported or suspected concerns.
Asset Disposals (DRAFT)	Testing of the new process highlighted the considerable progress that has been made to introduce and embed a new asset disposal process although further work is required to ensure that the process is fully effective and embedded within the Council's governance framework. Both the auditors and Management recognise that any new process may require adjustment following its implementation and practical application. Audit testing has identified additional areas where the process could be more defined to avoid it from being open to interpretation and Management has been responsive to suggestions.

APPENDIX D - Performance Target Outturn for 2016/17

<i>Indicator</i>	<i>Target</i>	<i>Measurement</i>	<i>Status</i>
1) Percentage completion of the agreed annual audit plan	100%	Complete = draft report or other deliverable issued by 30 April 2017.	94% (2015/16:89%)
2) To achieve an average customer satisfaction survey score	3.5	4 is the highest possible score.	3.46 (2015/16: 3.64) A slight dip in performance, the reasons for which are being considered and will be addressed through appraisals and 121 feedback where appropriate.
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% (2015/16:100%) This measure will be deleted for future years as all drafts are subject to discussion with management and therefore all actions in final reports have been agreed (or risk accepted).
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.	88% (2015/16: 63%) of drafts issued within 15 working days of the end of fieldwork and 71% (2015/16: 53%) finals issued within 20 days of the draft date. 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 96% (2015/16 94%) Compliance Auditors average 96% (2015/16: 84%) Increased productivity to last year as 2015/16 included a training programme for the compliance auditors following assurance integration.

			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 is 2.9 months (2015/16: 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.	65% (2015/16: 62%) delivered under budget or 80% (2015/16:79%) 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	31/03/2017
Average number of productive days per member of audit team	157	176	189	189	202	216
% Productivity (based on working days available after annual leave and public holidays)	72%	80%	81%	84%	87%	91%
% Productivity (based on working days available after annual leave, public holidays, sickness and authorised absence)	75%	82%	83%	87%	89%	94%

APPENDIX E – SIGNIFICANT VARIATIONS TO THE 2016/17 INTERNAL AUDIT PLAN AND APPLICATION OF CONTINGENCY TIME

The following table details areas examined during 2016/17 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
Property Disposals Whistleblowing Investigation	40	Process and controls contingency for Finance, Governance and Support; counter fraud contingency and performance data quality audit.	Significant time required during the year to respond to various concerns raised and queries regarding land and property disposals as audited during 2015/16.
Youth Employment Initiative	10	Supporting Families audit.	To provide assurance that effective processes are in place to manage the funding received via the Youth Employment Initiative.
Easterside Project Funding	12	Compliance with Funding Requirements and process and controls contingency.	To investigate concerns raised.
Certification of Various Grants>Returns	9	Certification of grants and claims contingency.	AYSE grant claim; HCA grant; troubled families and trust funds.
Cashiers Reconciliation	11	Cash handling and anti fraud controls contingency.	To reconcile cash balance discrepancy.
Middlesbrough Intermediate Care Centre	4	Adult social care plan audit allocation.	To review process compliance issues.

The following audits were not completed from the 2016/17 audit plan:

Audit Title	Comments
Contract Management	Audit deferred into 2017/18 due to external consultancy work that was ongoing which would have created duplication.
Performance Data Quality	Audit deferred into 2017/18 to enable the Data Quality Policy to be updated.
Supporting Families	It was agreed that the audit would add limited value at a time when the systems were in process of being developed and the performance framework re-designed.
Children's Centres	During the scheduling process, it was agreed with the client to undertake the audit in quarter four of 2016/17 to enable reliable data to be provided following the implementation of a new data recording system. Due to absence of key staff within the service area, it was requested that the audit be undertaken early summer 2017.

Audit Title	Comments
Transport and Infrastructure	This audit was not commenced but any control risks will be reviewed during 2017/18.
Adult Social Care Plan	This audit was requested to be deferred by the Director.
IT Software Procurement	This audit was commenced but was not completed and testing will be rolled forward into 2017/18 audits.

APPENDIX F – Assessment of TVAAS against Public Sector Internal Audit Standards (PSIAS) 2016/17

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 30 September 2016. 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 presented to the Corporate Affairs and Audit Committee at its meeting in September 2017.	Not applicable.	None required.

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
1100 – Independence and Objectivity	Most	<p>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 July 2017). Staff do not work on those areas where there could be a potential conflict of interests.</p> <p>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.</p> <p>The Audit and Assurance Manager has a direct reporting route to both councils' S151 Officers and has one to one meetings with the Chairs of Audit Committees at both councils when required.</p> <p>Audit assignments are periodically rotated although auditors may be assigned to the same assignment for up to three years.</p>	Various guidance has been provided to staff on counter fraud areas and legislation but a formal training session has not yet been rolled out across the Council so this will be discussed with the Strategic Director Finance Governance & Support.	Counter Fraud update session to be provided to all members of the Team by December 2017. 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. To discuss Council wide awareness sessions with the Strategic Director Finance, Governance & Support.

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 July 2017.</p> <p>The Audit and Assurance Manager is a qualified Chartered Certified Accountant (FCCA) and a chartered Internal Auditor (CMIIA) with the qualification in internal audit leadership (QIAL) and has both private sector and local government experience.</p> <p>Overall customer feedback is mostly positive as demonstrated by the average scores on returned customer satisfaction surveys although there has been a slight dip in the scores returned for 2016/17.</p> <p>Quality checks have been implemented for the end of each audit to ensure that requirements are met.</p> <p>The Principal Auditor and two compliance auditors have embarked upon the Institute of Internal Auditor's Certified Internal Auditor qualification programme.</p>	<p>Data analysis techniques have not been applied due to the prohibitive cost of renewing the relevant software. The Trainee Assurance Officer has strong spreadsheet skills that can be applied for data interrogation although this is not always relevant to an audit. Specific data interrogation software has not been sourced.</p> <p>There remain some individual examples of auditors needing to take extra care with the quality of their work. This continues to be managed by 121 and appraisal processes with improvement targets set as appropriate.</p> <p>Sample testing exercise on 2016/17 audits identified some areas requiring attention mostly relating to auditors completing the database fully. This has been raised with all auditors and the audit leads tasked with completing all requisite audit checks at the end of an exercise rather than delegating this to the main auditor.</p> <p>Three staff are undertaking certified internal audit qualification but have not yet completed their course – expected during 2018.</p>	<p>Spreadsheet tools will be used where useful to the audit scope. An assessment will be made at the end of the current audit year of the use of data interrogation.</p> <p>Individual performance to continue to be addressed via 121s/appraisal and performance framework. Audit leads to ensure that all quality checks have been completed prior to the issue of a final report.</p> <p>Staff to be proactive in completing their qualifications in line with the targets set for them – all three to have successfully completed the course by September 2018.</p>

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	<p>In accordance with the PSIAS, the Service has a QAIP in place. 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 Audit & Assurance Manager also carries out an annual review of the quality of files based on a sample selected across both councils.</p> <p>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 Borough Council; others have been added in response to areas where improvement is required.</p>	<p>Whilst usage and completion of the audit management system has improved during the year, there are still some areas that need to be improved. This year's sample check has identified additional areas to be addressed over the next year. Those areas have been communicated to the audit leads with changes expected in terms of the level of overseeing that is being carried out by the audit leads.</p>	<p>The QAIP to be updated where required and feedback provided to staff as part of the ongoing 121 and appraisal process.</p> <p>Audit leads to be</p> <ul style="list-style-type: none"> - allocated responsibility for setting (and inputting) all target dates for their assignments. - set draft report standards measures and to be discussed at regular one to one meetings. - to be set time targets for turning audits around (in audit leads' portfolios).

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 and assurance manual.</p> <p>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.</p> <p>Audit plans allow flexibility and include contingency time. Variations are reported to the relevant council's Audit Committee.</p> <p>Audit and Assurance Manual updated during the year to reflect changes in process.</p>	<p>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. 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.</p>	None required.
2100 – Nature of Work	Met	<p>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.</p>	Not applicable.	None required.

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
2200- Engagement Planning	Most	<p>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.</p> <p>A guide has been produced accordingly and will be provided to all audit clients at the outset of an audit. The information is also available on the Intranet.</p> <p>The approach to all financial/material systems was reviewed in accordance prior to undertaking any of the 2016/17 audits. In each case, previous approaches were considered for current relevance and were updated for any knowledge of emerging issues to ensure that the audit scope was based upon the key fraud risks and priorities.</p>	Target dates were set for audits last year although there is still scope for audit leads to more closely monitor those dates and this has been shared.	Audit leads to closely monitor compliance with target dates and to resolve any issues before the target date has passed.

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
2300- Performing the Engagement	Most	<p>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.</p> <p>Quality checklists should be completed at the conclusion of each assignment.</p> <p>Records retention has been reviewed and will be retained in accordance with the Local Government Inform Plus database which lists different retention times depending on the type of document.</p>	Some individual assignments do not always meet the standard required due to individual performance. This will be addressed by actions already identified in this self assessment.	Will be covered by actions already identified.

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
2400 – Communicating Results	Most	<p>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. 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.</p> <p>The Audit and Assurance Manager issues an annual report including an overall opinion on the control environment.</p> <p>Audit leads set target dates for all assignments.</p>	Some audit reports have exceeded the target turn around dates.	<p>Escalation procedure to be revisited and communicated to LMT.</p> <p>Audit leads to monitor compliance with target dates more closely. This has been communicated and has already been addressed by an earlier action in this self assessment.</p>
2500 – Monitoring Progress	Met	<p>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. Outstanding actions are circulated to DMTs for their attention.</p>	Not applicable.	None required.

Standard	Assessment (Met/Most/Partial/Scope to Develop)	Summary	Areas of Non Compliance	Update and further action
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.	Not applicable.	None required.