

**MIDDLESBROUGH COUNCIL**



**CORPORATE AFFAIRS AND AUDIT COMMITTEE**

<b>Report title</b>	Internal Audit Progress Report
<b>Chief Executive or Director</b>	Strategic Director of Finance, Governance and Support
<b>Date</b>	22 March 2018
<b>Purpose of the report</b>	To update Members on the main findings arising from internal audit work carried out since the previous progress report to Members on 07 December 2017. In addition, the report will brief Members on the performance of the Council's internal audit service, Tees Valley Audit and Assurance Services (TVAAS).
<b>Summary of the report</b>	<p>Based on the internal audit work carried out since the progress report to Members on 07 December 2017, 11 reports have been issued in final (5 strong, 5 moderate and 1 cause for concern). Of the 41 actions recommended in those reports, one was a P1 action (relating to preparation for the Data Protection reforms). This P1 action has been confirmed as implemented.</p> <p>Three additional reports (one moderate and two cause for concern) have also been issued but are currently still in draft and awaiting agreement with the relevant officers so they may be subject to change.</p> <p>Only 6 actions that were due to have been implemented by or before 28 February 2018 remain outstanding. This shows the progress being made by the Council to address any issues. There are no significant concerns to raise regarding the remaining 6.</p> <p>More detail on all of the internal audit work is provided in the appendices to this report.</p>
<b>If this is a confidential report, which category of exemption(s) from the Schedule 12a of the Local Government Act 1972 applies?</b>	Not applicable.
<b>Decision(s) asked for</b>	<p>That Corporate Affairs and Audit Committee Members are requested to note and comment upon the:</p> <ul style="list-style-type: none"> <li>• Findings arising from internal audit work;</li> <li>• Service performance to deliver the Internal Audit Plan.</li> </ul>

<b>Impact of decision(s)</b>	Agreement to note the audit findings or identify where additional assurance is required will help the Committee perform its role. Internal audit work makes a contribution towards achieving the Mayor’s Vision and Strategic Plan by identifying any potential control issues which may obstruct that achievement.
<b>Contact:</b>	Helen Fowler, Audit & Assurance Manager, <a href="mailto:helen_fowler@middlesbrough.gov.uk">helen_fowler@middlesbrough.gov.uk</a> or 01642 771165.

**What is the purpose of this report?**

1. To update Members on the main findings arising from internal audit work carried out since the previous internal audit progress report was submitted to Members on 07 December 2017. In addition, the report will brief Members on the performance of the Council’s internal audit service, Tees Valley Audit and Assurance Services (TVAAS).

**Why is this report necessary?**

2. Internal Audit is an independent appraisal function established by the Council to objectively examine, evaluate and report on the adequacy of internal controls. The objective of this role is to support the proper economic, efficient and effective use of resources.
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. TVAAS provides a wider integrated assurance service for Redcar & Cleveland Borough Council and covers health and safety, risk management and insurance.
4. Members approved the 2017/18 Audit and Assurance Plan at their meeting on 29 June 2017. The total number of planned audit and assurance days for 2017/18 is 855. For those assignments where a report is produced, the target is to have issued 100% of all reports in draft by 30 April 2018. The current performance on this target is 42% and it is expected that most of the remaining assignments will be completed by the time of the annual report (excluding the variations discussed in paragraph 8) provided that responses and information is provided on a timely basis.
5. Each individual audit report provides an opinion on the system or area under review. The methodology applicable to those audits is provided for the benefit of Members in **Appendix 3**.
6. A service level agreement for the provision of internal audit services is in place between Redcar and Cleveland Borough Council and Middlesbrough Council and includes a number of performance measures. Additional performance measures were later introduced based on the perceived development and improvement needs of the Service. The current level of performance against each of these measures is detailed in **Appendix 2**. Most individual productivity targets continue to be met

although the Service's productivity has been affected this year by one instance of long term absence, other instances of unexpected authorised absence and the initial training required for new starters and the training and ongoing supervision required for contract staff. Where individuals' productivity performance is slightly below target, the reasons for this have been identified and most variances are minor.

7. **Appendix 1** provides a summary of the main internal audit work; a summary of the priority 1 actions recommended during the quarter plus any P1s outstanding from previous periods (if they have passed their due date). This appendix also shows all other actions that are still outstanding but which, according to the date agreed at the time of the audit, had passed their due date by the end of February 2018.

The key points to note from **Appendix 1** are as follows:

- Five of the internal audit reports issued as a final during the quarter had an overall assurance level of Strong; five were Moderate and one report had an opinion of Cause for Concern.
- Three draft reports are under discussion, one of which has a provisional opinion of Moderate and two which are provisionally Cause for Concern.
- One new P1 action was included within the final reports issued and has been confirmed as implemented. The draft report on Trading Limits Breach provisionally includes one further P1 action.
- In total, 6 internal audit actions are outstanding and should have been implemented (according to the target date agreed at the time of the audit) by 28 February 2018. All 6 only just fell due at the end of February and provided that all actions are implemented, there are no significant concerns to raise regarding these actions. Audit and assurance officers regularly pursue progress updates on all actions and therefore the number of outstanding actions changes each day.

### **Proposed Variations to the 2017/18 Plan**

8. 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. The following variations are now requested and it is proposed that all of the variations requested below will be considered for inclusion in the 2018/19 Plan:
  - IT Governance – due to the commitments of the Head of ICT Services, it has been proposed that this audit will be deferred until early 2018/19. Other (non internal audit) reviews will be undertaken into aspects of cyber security.
  - Contract Management - the programme and process for obtaining funding has delayed original timescales and the Council is still organising the procurement of a contract management system with the aim of implementation and training during February and March with a go live in April. The audit would be of more benefit after this time.

- Agresso – proposed that this audit be deferred until 2018/19 to allow for planned improvements and changes to be made to the system. Previous audit recommendations will still be followed up as usual.
- Youth Employment Initiative – the proposal is to move this audit into early 2018/19 and carry out at the same time as the Redcar and Cleveland audit of the same area.

**What decision(s) are being asked for?**

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

- Findings arising from internal audit work;
- Proposed audits to be deferred;
- Performance of the Service.

**Why is this being recommended?**

10. 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.

11. 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.

**Other potential decisions and why these have not been recommended**

12. The progress report is a factual statement of the Service's findings and performance for the quarter concerned. As a result there are no options available except to note this performance and its impact on the future performance of the Council.

**Impact(s) of recommended decision(s)**

13. Agreement to note the audit findings or identify where additional assurance is required will help the Committee perform its role. Internal audit work makes a contribution towards achieving the Mayor's Vision and Strategic Plan by identifying any potential control issues which may obstruct that achievement.

***Legal***

14. The work of TVAAS is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (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.

15. Internal audit is a statutory requirement in a local authority. The Council has delegated the delivery of this responsibility to the Strategic Director for Finance, Governance & Support.

***Financial***

16. The audit and assurance plan for Middlesbrough Council for 2017/18 includes a total of 855 days. The number of days is based on the estimated productive days per member of the Team taking into account known and estimated absences and commitments. Redcar & Cleveland Borough 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 applied to the actual days worked. The overall annual budget for internal audit is circa £180K.

***The Mayor's Vision for Middlesbrough***

17. Internal Audit assists management in delivering the Mayor's Vision 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.

***Policy Framework***

18. The Corporate Affairs and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements. TVAAS acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

***Wards***

19. There are no specific financial or ward implications arising from the Internal Audit Progress report 2017/18.

***Equality and Diversity***

20. There are no direct implications from this report on equality and diversity although aspects of the proposed internal audit work may involve a review of issues affecting equality and diversity.

***Risk***

21. Internal audit and assurance work is aimed at providing assurance that the key risks faced by the Council are being managed effectively and that appropriate safeguards are in place for public funds and assets.

**Actions to be taken to implement the decision(s)**

22. Any requests for additional assurance or clarification by Members of the Committee will be responded to accordingly.

**Appendices**

23. Appendix 1 – Audit Outcomes and Actions Status  
Appendix 2 – Performance Targets for TVAAS  
Appendix 3 – Opinion Definitions

**Background papers**

24. No background papers other than published works were used in the preparation of this report.

**Contact:** Helen Fowler – Audit and Assurance Manager

**Email:** [helen\\_fowler@middlesbrough.gov.uk](mailto:helen_fowler@middlesbrough.gov.uk)