

CORPORATE AFFAIRS AND AUDIT COMMITTEE

AGENDA ITEM 6

Report title	Internal Audit Progress Report
Chief Executive or Director	Strategic Director of Finance, Governance and Support
Date	6 December 2018
Purpose of the report	To update Members on the main findings arising from internal audit work carried out since the annual internal audit report to Members on 26 July 2018. In addition, the report will brief Members on the performance of the Council's internal audit service, Tees Valley Audit and Assurance Services (TVAAS).
Summary of the report	<p>Based on the internal audit work carried out since the progress report to Members on 26 July 2018, 3 reports have been issued in final (2 strong and 1 cause for concern). No new Priority 1 actions have been recommended.</p> <p>Two additional reports, both with Moderate assurance, 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>No actions that were due to have been implemented by or before 31 October 2018 remain outstanding. This shows the progress being made by the Council to address any issues. More detail on all the internal audit work is provided in the appendices to this report.</p>
If this is a confidential report, which category of exemption(s) from the Schedule 12a of the Local Government Act 1972 applies?	Not applicable.
Decision(s) asked for	<p>That Corporate Affairs and Audit Committee Members are requested to note and comment upon the:</p> <ul style="list-style-type: none"> • Findings arising from internal audit work; • Service performance to deliver the Internal Audit Plan.
Impact of decision(s)	Agreement to note the audit findings or identify where additional assurance is required will help the Committee perform its role. Internal audit work contributes towards achieving the Mayor's Vision and Strategic Plan by

	identifying any potential control issues which may obstruct that achievement.
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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 annual internal audit report was submitted to Members on 26 July 2018. 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 2018/19 Audit and Assurance Plan at their meeting on May 2018. The total number of planned audit and assurance days for 2018/19 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 2019. The current performance on this target is 13%. Although this seems low, it is similar to the position reported at the same time in 2017 and it is expected that most of the remaining assignments will be completed by the time of the annual report (excluding any variations that are requested and approved) provided that auditors are provided with responses and information 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 several 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 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 (if any) during the quarter plus any P1s outstanding from previous periods (if they have passed their due date). This appendix also shows any 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 October 2018.

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

- One internal audit report issued as a final during the period had an overall assurance level of Cause for Concern (purchasing cards). There are 5 actions outstanding from this report although four of them are not due to have been implemented until 2019.
- Two draft reports are under discussion, both of which have a provisional opinion of Moderate although one of the opinions is likely to increase to Good provided that additional evidence is received.
- No new P1 actions have been recommended during the period and none are outstanding from earlier periods.
- No internal audit actions, that should have been implemented by 31 October 2018, are outstanding.
- A total of 76 actions were due to have been implemented (according to the agreed target date) between 1 April and 31 October 2018 and none of these are outstanding.

Proposed Variations to the 2018/19 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. No significant variations have been requested at this time.

Escalation Process

9. The Internal Audit Service has an escalation process that sets out the expected timescales for responding to requests for information, responses to audit reports and outstanding actions. The process has been updated to include more information on engaging with the auditors and this is presented for Members' information at **Appendix 4**.

What decision(s) are being asked for?

10. 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?

11. 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.
12. 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

13. 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)

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

Legal

15. 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.
16. 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

17. 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 considering 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

18. 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

19. 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

20. There are no specific financial or ward implications arising from the Internal Audit Progress report 2018/19.

Equality and Diversity

21. 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

22. 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. As such, internal audit work contributes to providing assurance on the mitigation controls for many of the risks included on the Council's risk registers, both strategic and directorate. Internal audit work particularly links into risk reference O8-054 which relates to having adequate governance processes in place.

Actions to be taken to implement the decision(s)

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

Appendices

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

Appendix 4 – Escalation Process

Background papers

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

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