

Report of:	Audit & Assurance Manager, Tees Valley Audit & Assurance Services
Submitted to:	Corporate Affairs and Audit Committee 19 December 2019
Subject:	Internal Audit Progress Report

Summary

Proposed decision(s)
<p>That the Committee notes and comments upon the:</p> <ul style="list-style-type: none"> • Findings arising from internal audit work; • Outstanding audit actions that have not been implemented by the agreed target date; • Proposed audits to be deferred; • Performance of the Service.

Report for:	Key decision:	Confidential:	Is the report urgent?¹
Information	No	No	No

Contribution to delivery of the 2018-22 Strategic Plan		
Business Imperatives	Physical Regeneration	Social Regeneration
<p>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 Council's priorities by identifying any potential control issues which may obstruct that achievement.</p>	<p>Internal Audit assists management in delivering their priorities 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.</p>	<p>Internal Audit assists management in delivering their priorities 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.</p>

Ward(s) affected
None.

What is the purpose of this report?

1. To update Members on the main findings arising from internal audit work carried out to date this financial year. 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 does this report require a Member decision?

2. 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 Council's priorities by identifying any potential control issues which may obstruct that achievement.

Report Background

3. 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.
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. TVAAS provides a wider integrated assurance service for Redcar & Cleveland Borough Council and covers health and safety, risk management and insurance. As previously reported to Members, Redcar and Cleveland Borough Council will be transferring the internal audit service to Veritau Ltd therefore future internal audit related reports to this Committee will be provided by Veritau.
5. Members approved the 2019/20 Audit and Assurance Plan at their meeting on May 2019. The total number of planned audit and assurance days for 2019/20 is 875. For those assignments where a report is produced, the target is to have issued 100% of all reports in draft by 30 April 2020. The current performance on this target is 29%. 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) if auditors are provided with responses and information on a timely basis.
6. Of the agreed audits from the 2019/20 Audit and Assurance Plan, fewer than expected have been issued in final so far, this financial year. In part this is due the first few months of the financial year involving the certification of several grant returns (that do not result in an audit report but which are included in the annual plan). Another reason has been that six unplanned assignments have or are in progress (using contingency time) because of concerns raised either by management or that have been reported via the Council's whistleblowing arrangements. Six investigations have had to be prioritised and the status is that three of these investigations have been completed and the findings reported; another investigation has resulted in a draft report which is under discussion. The remaining two investigations are ongoing. The investigations carried out so far

relate to a variety of different allegations relating to compliance with health and safety practice, procurement procedure rules, equalities legislation, recruitment processes and other governance matters. Once finalised, a summary of the outcomes from each investigation will be reported to this Committee where appropriate.

7. 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**.
8. 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**. The Service's productivity has been affected this year by one instance of long term absence although this has since been resolved.
9. **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, based on the date agreed at the time of the audit, had passed their due date by 31 October 2019.
10. The key points to note from **Appendix 1** are as follows:
 - One report was issued in final with a moderate assurance opinion; the monthly audits of troubled families returns and the hot topic audit on workplace culture have provided strong assurance;
 - Six draft reports have been issued, one of which has a provisional opinion of cause for considerable concern whilst three have draft opinions of moderate; one is strong and one is good. All draft reports are under discussion so may change.
 - Three investigations have been completed; based on the evidence and in the auditors' opinion, the associated allegations were not confirmed by the evidence and explanations available.
 - No new P1 actions have been recommended during the period and none are outstanding from earlier periods.
 - A total of 96 actions were due to have been implemented (based on the agreed target date) between 1 April 2019 and 31 October 2019 and 24 are outstanding although action is underway for most of these.

Proposed Variations to the 2019/20 Plan

11. 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 only variations requested at this point in the year are as follows:
 - Hot Topic - Data Protection and strategies post GDPR – because the Council has requested an audit from the Information Commissioner's Office, this audit will be duplication so it is proposed to defer it;

- Project Management – it is proposed to defer this audit as the control environment has been regularly audited over recent years and the previous two audits have given a good level of assurance. A separate audit on the project management of the snow centre and the Southlands demolition will continue.
- Hot Topic – Business Continuity - this area did not become included in the Hot Topics 2019 report as expected and therefore it is considered that there are greater priorities for audit focus.

What decision(s) are being asked for?

12. That the Corporate Affairs and Audit Committee notes and comments upon the:

- Findings arising from internal audit work;
- Proposed deferred audits;
- Service performance to deliver the Internal Audit Plan.

Why is this being recommended?

13. 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.

14. 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

15. The progress report is a factual statement of the Service's findings and performance for the quarter concerned. 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)

16. 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

17. 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.

18. 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

19. The audit and assurance plan for Middlesbrough Council for 2019/20 includes a total of 875 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.

Policy Framework

20. 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 and policy 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.

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

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.

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