

# INTERNAL AUDIT PROGRESS REPORT

Date: 5 October 2023

Appendix 1





## BACKGROUND

- 1 Internal audit provides independent and objective assurance and advice about the Council's operations. It helps the organisation to achieve overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
- 2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
- 3 The internal audit work programme was agreed by this committee in June 2023. The plan is flexible in nature and work is being kept under review to ensure that audit resources are deployed to the areas of greatest risk and importance to the Council.
- 4 The purpose of this report is to update the committee on internal audit activity up to 26 September 2023.



## INTERNAL AUDIT PROGRESS

- 5 Since the last progress report to this committee, we have made good progress with ongoing audit work. We have finalised a number of audits and have prioritised work in Children's Services including procurement cards (which is now in draft) and agency staff. We have also started a number of new audits across the Council.
- 6 A summary of internal audit work currently underway, as well as work finalised during 2022/23 is included at annex A, below. We currently have three audits at draft report stage, and we are currently awaiting a response from the relevant officers to the findings identified.
- 7 The work programme showing current priorities for internal audit work is included at annex B. Alongside the work in the 'do now' and 'do next' categories we show when work commenced or is expected to commence, and when the findings are expected to be reported to the Committee. These timescales are subject to change and work priorities may also change during the year depending on an ongoing consideration of risk.
- 8 The programme includes several audits in the 'do later' category. The internal audit work programme is designed to include all potential areas that should be considered for audit in the short to medium term, recognising that not all of these will be carried out during the current year (work is deliberately over programmed). We have changed the priority of some audits due to the changes in senior leadership within Children's Services.
- 9 Seven audit reports have been finalised since the last progress report to this committee in July 2023. The audit of the Middlesbrough Development

Company was included as part of a separate report to the Committee meeting in August. A summary of the findings from the remaining five audits are included at annex C.

- 10 Annex D lists our current definitions for action priorities and overall assurance levels.

## FOLLOW-UP OF AGREED ACTIONS

- 11 All actions agreed with services because of internal audit work are followed up to ensure that underlying control weaknesses are addressed. A summary of follow up work is included at annex E.

## ANNEX A: 2023/24 INTERNAL AUDIT WORK

### Audits in progress

Audit	Status
Tees Community Equipment Service	Draft report issued
Homecare	Draft report issued
Procurement cards (Children's Services)	Draft report issued
Domestic abuse	In progress
Selective landlord licensing	In progress
Public health governance	In progress
Debtors	In progress
Teesside Pension Fund – Administration	In progress
Main accounting	In progress
Treasury management	In progress
Agency staff (Children's Services)	In progress
Use of residential care	In progress
Health and safety	In progress
Benefits and Council Tax Support	In progress
IT applications	In progress

### Final reports issued

Audit	Reported to Committee	Opinion
Supplier relief	July 2023	No opinion given
Middlesbrough Development Company	August 2023	No opinion given
Children's commissioning & contract management	October 2023	Limited Assurance
Disabled Facilities grant	October 2023	Substantial Assurance
Schools themed audit – Schools Financial Value Standard	October 2023	Reasonable Assurance
Regeneration projects	October 2023	Substantial Assurance
Disaster recovery (IT)	October 2023	Substantial Assurance
Council Tax and NNDR	October 2023	Substantial Assurance

**Other work in 2023/24**

Internal audit work has been undertaken in a range of other areas during the year, including those listed below.

- A review of grant claims including the Family Life and Hubs grant and the Children's Services Practice Improvement grant.
- A review of returns completed by the Council for the Supporting Families scheme.
- A review of effectiveness of arrangements in place to manage subcontractor systems and controls in relation to Middlesbrough Council's Community Learning Service (MCLS).
- Support and advice on improvements to processes in the Teesside Pension Fund.

## ANNEX B: CURRENT PRIORITIES FOR INTERNAL AUDIT WORK

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
<b>Corporate &amp; cross cutting</b>			
<b>Category 1 (do now)</b>			
Procurement cards	This is now at draft report stage. The audit looked at use of procurement cards in Children’s Services. When finalised, we are planning to do further work on use of procurement cards in other directorates.	April 2023	December 2023
Agency staff	Fieldwork is underway.	August 2023	December 2023
Health and safety	Planning has commenced.	September 2023	March 2024
Procurement	Planning has commenced.	September 2023	March 2024
<b>Category 2 (do next)</b>			
Information governance including FoI	Key governance area and weaknesses in relation to responding to FoI Act requests have been identified by EY as part of their annual work.	December 2023	July 2024
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q4 onwards:		

<sup>1</sup> This is the expected date the audit findings will be included in reports to the Corporate Affairs and Audit Committee. The report will potentially be finalised sooner than this, and the date of issue will be included when reported to the Corporate Affairs and Audit Committee. After the current meeting, the next two scheduled reporting dates to Committee are December 2023 and March 2024.

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Savings plans and delivery	The Council has significant budget pressures and has agreed a further set of savings plans. The audit will review progress against these plans and the reasonableness of assumptions made in calculating savings.		
Decision making and Council governance	The Council has had several governance related issues in recent years that have been reviewed by internal audit. We will allocate time to review any emerging issues and to ensure previously agreed actions have been implemented.		
Risk management	This is a key area of governance for the Council and has not been audited for some time.		
Information security	Considered high risk due to external threats and the continuing pace of technological change. Risks may also have changed as a result of the recent office move to Fountains Court.		
Corporate complaints	Essential for effective governance. This area has not been audited for some time.		
Project management	Sound project management arrangements are important because it helps every part of the Council run more efficiently and effectively. When done correctly, it enables the leadership team to plan and manage projects so that objectives and deliverables are completed on time and within budget. The Council has several projects in development or underway including Boho X and regeneration projects including the old Southlands Centre, Captain Cook Square, and housing regeneration in Gresham. This audit may include a follow-up of actions relating to Boho X.		
Performance management	A key assurance area reflecting its significant contribution to the achievement of the Council's objectives		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
<b>Financial / Corporate systems</b>			
<b>Category 1 (do now)</b>			
Debtors	Fieldwork is underway. There have been delays in progressing this audit in order to prioritise the audit of purchasing cards.	April 2023	December 2023
Teesside Pension Fund – Administration	Planning has commenced. The start of the audit was delayed due to completing unplanned grant claim work relating to Homes England.	September 2023	March 2024
Main accounting	Fieldwork is underway.	August 2023	December 2023
Treasury management	Planning has commenced.	September 2023	March 2024
Benefits & Council Tax Support	Planning is due to commence once the council tax / NNDR audit is finalised.	October 2023	March 2024
<b>Category 2 (do next)</b>			
VAT accounting	This area has not been reviewed for some time.	December 2023	July 2024
Payroll	This is a key financial system requiring effective internal controls.	December 2023	July 2024
Creditors	This is a key financial system requiring effective internal controls.	December 2023	July 2024



Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q34 onwards:		
Teesside Pension Fund – Investments	This is a key financial system for the Pension Fund requiring effective internal controls. This has been moved from do next, due to the knock on effect of delays to the pension administration audit.		
<b>ICT</b>			
<b>Category 1 (do now)</b>			
IT Applications	Planning underway. This will review the Liquid Logic care system and the HR system.	September 2023	December 2023
<b>Category 2 (do next)</b>			
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q4 onwards:		
IT asset management	This is now a potential audit for later in the year due to the implementation of Office 365 and the higher priority of the IT applications audit.		
Cyber security	Cyber threats are a high risk for all organisations and it's therefore essential that controls are in place to manage the risks they present.		
<b>Operational audits</b>			
<b>Category 1 (do now)</b>			
Tees Community	This is at draft report stage. The audit was delayed due to other priority audit work. The audit also involves multiple service areas, which has	October 2022	December 2023

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Equipment Service	impacted on completion time. The draft report was originally issued in June 2023. Discussions with officers about the findings are ongoing.		
Homecare	This is at draft report stage. Whilst the specification was agreed in November 2022, fieldwork did not commence until 2023.	November 2022	December 2023
Domestic abuse	Fieldwork is underway. The audit has been delayed due to difficulties in receiving information. .	May 2023	December 2023
Public health governance	Fieldwork is underway. There have been some delays in receiving information.	May 2023	December 2023
Supporting families	Quarterly review of grant claims. Q1 is complete.	Ongoing	Ongoing
Selective landlord licensing	Fieldwork is complete.	July 2023	December 2023
Use of residential care	Fieldwork is underway.	September 2023	December 2023
<b>Category 2 (do next)</b>			
Early years funding	Planning has commenced. The audit is likely to be delayed due to the changes in senior management in Children's Services.	December 2023	July 2024
Ofsted Improvement Plan	This remains a high risk for the Council and progress is regularly reported to the Executive. We have completed work on the Improvement Plan in the past. We have agreed with the Director of Finance to defer work on this until the new Director of Children's Services is appointed.	December 2023	July 2024

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Commercial property income	The Council has a portfolio of commercial property which it leases out. This was identified as an area of risk by DMT due to the increasing number of tenants. The audit will review the processes involved to onboard tenants, manage income and undertake debt recovery.	December 2023	July 2024
Direct payments	High inherent risk due to potential fraud and the complexity of care packages. The area has not been reviewed for some time.	December 2023	July 2024
Continuing healthcare (CHC)	CHC is a key area for adult social care budget management. This includes the pressures caused by hospital discharges.	December 2023	July 2024
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q4 onwards:		
Youth Justice Service (Turnaround scheme)	The South Tees Youth Justice Service is a multi-agency partnership serving the local authority areas of Middlesbrough and Redcar and Cleveland. The scheme receives funding from central government for early intervention for young people.		
Social care transitions (Children's to Adult's)	This was identified as a significant risk at DMT due to the pressures on resources, and the increasing number and complexity of individual cases. This audit may include several different aspects including financial and non-financial.		
Schools themed audit	We allocate time as part of the audit programme to look at aspects of governance and financial management across schools, as part of themed audits. Priorities for themed audits will be agreed with officers. One area being considered is management of school exclusions.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Children's Services demand / budget management	The Council continues to face significant budget pressures within Children's Services. This audit would look at overall arrangements for managing demand for services and costs.		
Housing development	A review of the arrangements to regenerate housing provision in the Council area.		
Financial assessments (Adult's)	In the context of increasing financial pressure on care services, robust assessments can help the Council to accurately determine charges for care and work within financial constraints. This area has not been reviewed for some time.		
Climate change	Climate change is a Council priority in the Strategic Plan and the Council has a 2-year Green Strategy (2021-2023) with 3 overarching aims including to ensure the Council is a lead authority on environmental issues.		
Anti-social behaviour management	Reducing anti-social behaviour (and crime) is a Council priority in the Strategic Plan. We have conducted a recent audit and this audit would follow-up previously agreed actions.		
Homelessness	This is a high risk nationally with 271,000 people recorded as homeless in England. Middlesbrough has the highest rates of homelessness in Teesside according to the charity Shelter.		
Burials (follow-up)	An audit of the burials service was carried out in 2022/23 which resulted in the need for various service improvements being identified. A follow-up review will be due towards the end of 2023/24 or early 2024/25.		
Transporter Bridge (follow-up)	This audit will follow-up the outstanding actions which remain to be implemented in relation to the maintenance of the Transporter Bridge.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
	Implementation will depend on whether the bridge is returned to operational use.		

## ANNEX C: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

System/area	Opinion	Area reviewed	Date issued	Comments / Issues identified	Key management actions agreed	P1 actions	P2 actions
Disabled facilities grant	Substantial Assurance	Policies, grant assessments, monitoring, resolving of issues.	28 June 2023	A strong control framework is in operation.	None	0	0
School's themed audit - Schools Financial Value Standard (SFVS)	Reasonable Assurance	Review and scrutiny by governors, completion of the SFVS, remedial actions.	27 July 2023	Council staff were not aware of changes to the SFVS and did not update their evidence requirements, not all submissions had sufficient evidence.	An annual process to review the SFVS requirements will be introduced, checks will be made to ensure all submissions are correct.	0	5
Regeneration projects	Substantial Assurance	A review of 5 projects against the project management framework.	2 August 2023	We found good compliance to the project management framework.	None	0	0
Disaster recovery (IT)	Substantial Assurance	Roles and responsibilities, disaster recovery plans, backups, lessons learned.	13 September 2023	Effective controls are in place however the Council has not tested all of their disaster recovery arrangements.	A full disaster recovery test will be carried out.	0	1

System/area	Opinion	Area reviewed	Date issued	Comments / Issues identified	Key management actions agreed	P1 actions	P2 actions
Council Tax and NNDR	Substantial Assurance	Policies & procedures, write-offs, discounts & reliefs.	26 September 2023	A strong control framework is in operation.	None	0	0

## Limited Assurance reports

System/area	Opinion	Area reviewed	Date issued
Children's commissioning and contract management	Limited Assurance	Management of the provider framework, outcomes for children, value for money, contract management. The fieldwork was carried out in 2022 and some of the actions have now been implemented. Full details are below.	21 September 2023

## Summary of actions agreed

Finding	Priority	Agreed Action	Responsible Officer	Timescale
There was no evidence of analysis taking place for the Council to improve the current provider portfolio	2	At the time of the fieldwork of the audit (which commenced in February 2022) the main strategic focus was on the existing internal placements as the framework was still in operation therefore there was less	Specialist Commissioning & Procurement Senior Manager	Implemented

Finding	Priority	Agreed Action	Responsible Officer	Timescale
through documented gap analysis and forward planning.		focus on the review of external market and placements. Since the audit there have been a further two block contracts secured and an in-house residential project has been scheduled to increase capacity – this commenced in February 2023.		
		A project plan has been in place since April 2023 which has been approved by Executive. Further work will be rolled out regarding gap analysis as part of the project.		31 December 2023
There is little documented evidence available of provider networking and engagement.	2	Ongoing provider engagement happens through various forums which take place such as the Regional IFA Forum, Tees Valley Residential Forum, South Tees Residential Provider Meeting, Provider Support Meetings – daycare and these meetings are documented.	Specialist Commissioning & Procurement Senior Manager	Implemented
		A documented engagement action plan will be developed which will document the engagement and forward planning activities with the provider market that the current Commissioning Team currently undertake.		31 December 2023
The information referred to commissioning is inconsistent in detail and quality.	2	Placement Panel meetings are now taking place and are chaired by a senior representative in Children’s services.	Specialist Commissioning & Procurement Senior Manager	Implemented
		A quality assurance process will be developed to ensure referrals being sent		31 December 2023



Finding	Priority	Agreed Action	Responsible Officer	Timescale
		through to commissioning meet quality standards.		
There is no document in place which outlines the arrangements for a placement prior to being reviewed and approved for residential care.	2	All placements are now approved at Directorate level and are documented and discussed at placement meetings.	Specialist Commissioning & Procurement Senior Manager	Implemented
		Commissioning will develop a breakdown of fees for new placements which are placed through spot contracts.		31 December 2023
No evidence could be obtained that the cost of all ongoing placements are periodically reviewed.	2	A placement Manager was appointed in April 2023 and to date all placement costs have been reviewed with a clear savings tracker in place.	Specialist Commissioning & Procurement Senior Manager	Implemented

## ANNEX D: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

### Audit opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Opinion	Assessment of internal control
Substantial assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

### Priorities for actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

## ANNEX E: FOLLOW UP OF AGREED AUDIT ACTIONS

Where weaknesses in systems are found by internal audit, the auditors agree actions with the responsible manager to address the issues. Agreed actions include target dates and internal audit carry out follow up work to check that the issue has been resolved once these target dates are reached. Follow up work is carried out through a combination of questionnaires completed by responsible managers, risk assessment, and by further detailed review by the auditors where necessary. Where managers have not taken the action they agreed to, issues are escalated to more senior managers, and ultimately may be referred to the Corporate Affairs and Audit Committee.

### Actions completed

One action has been completed since the last report to this committee. This was a priority 3 action relating to the audit of xx.

### Actions Outstanding

A total of 18 actions with original due dates that have passed are still outstanding. A summary of the priority of these actions is included below.

Actions agreed		Actions agreed by directorate						
Priority of actions	Number of actions agreed	Priority of actions	Adult Social Care	Children's Services	Environment and Community	Finance	Legal and Governance	Regeneration
1	5	1	0	0	5	0	0	0
2	11	2	1	0	8	1	0	1
3	2	3	0	0	0	0	2	0
<b>Total</b>	<b>18</b>	<b>Total</b>	<b>1</b>	<b>0</b>	<b>13</b>	<b>1</b>	<b>2</b>	<b>1</b>

Of the 18 actions outstanding 15 have had a revised date agreed. The remaining 3 are currently being followed-up.

### Actions outstanding for more than 6 months (Priority 1 and 2)

Eleven P1 or P2 actions have currently been outstanding for more than 6 months. Of these, 8 relate to the audit of the Transporter Bridge and details have been reported previously to this committee. These relate to operational issues and will not be dealt with until the bridge is brought into operation for which there is no agreed date.

We will monitor the position and follow up again when there is a plan for it to become operational but will remove from follow up reporting to this committee until that point.

Details of the remaining three actions are included in the table below. Revised dates have been agreed and we will follow these up when the new implementation dates becomes due.

Audit	Priority	Original Date	Revised Date	Finding / Action	Reason for Delay
Debtors	2	30/09/2021	30/09/2023	The VAT Officer will investigate those cases identified during the audit and will provide further training and guidance for relevant staff.	There was a delay in progressing this action due to the Council recruiting a new VAT officer.  A new VAT officer is now in place who will investigate and produce some key points on the incorrect VAT treatment with further guidance provided where necessary.

Audit	Priority	Original Date	Revised Date	Finding / Action	Reason for Delay
Burials	2	31/12/2022	30/09/2023	A charter is being developed to clarify the role of the Council in respect of death registration, burials and cremations. The charter will be completed in conjunction with the Head of Democratic Services clarifying the roles, responsibilities and expected conduct of the Council in relation to death registration, burials and cremations, as well as the expected conduct of Funeral Directors. The charter will include a section relating to expected behaviour based on the Council's dignity & respect Policy and clarify the hierarchy of actions the council will take in the event that the standards are not maintained.	The service have requested a delay due to some ongoing operational issues which are having an effect on implementing the actions.
Burials	2	31/12/2022	30/09/2023	The arrangements for same day burials including the out of hours service will be reviewed and the circumstances in which they are offered documented.	