

INTERNAL AUDIT PROGRESS REPORT

Date: 14 December 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 24 November 2023.



INTERNAL AUDIT PROGRESS

- 5 Since the last progress report to this committee, we have finalised four audits including a review of procurement card use in Children's Services. This was given a Limited Assurance opinion. As a result of the issues identified we have widened the work to review use of procurement cards across the Council.
- 6 Several new audits are underway including early years funding, procurement, direct payments and VAT accounting.
- 7 A summary of internal audit work currently underway, as well as work finalised during 2023/24 is included at annex A, below.
- 8 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.
- 9 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).
- 10 It is likely that most audits in the 'do later' category will now be considered for commencement at the beginning of 2024/25. These audits along with

any other new or emerging priorities will be considered as part of the planning process for the 2024/25 internal audit work programme.

- 11 As noted above, four audits have been finalised since the last progress report to this committee in October 2023. A summary of the findings from these audits is included at annex C. We have provided additional detail for the report on procurement card use in Children's Services which was given a Limited Assurance opinion.
- 12 Annex D lists our current definitions for action priorities and overall assurance levels.

FOLLOW-UP OF AGREED ACTIONS

- 13 Following an audit, actions are agreed with the responsible managers to address any issues found. All actions agreed 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
Domestic abuse	On hold
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 – Liquid Logic	In progress
IT applications – iTrent	In progress
Procurement cards	In progress
Procurement	In progress
Direct payments	In progress
Information governance including FoI	In progress
Schools themed audit (business continuity)	In progress
VAT accounting	In progress
Early years funding	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
Tees Community Equipment Service	December 2023	No opinion given
Homecare	December 2023	Reasonable Assurance
Procurement cards (Children's Services)	December 2023	Limited Assurance
Selective landlord licensing	December 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 Family Life and Hubs, Changing Places Fund and Children's Services Practice Improvement.
- 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.
- A Homes England compliance audit on the Council's Affordable Housing Programme.

ANNEX B: CURRENT PRIORITIES FOR INTERNAL AUDIT WORK

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
Corporate & cross cutting			
Category 1 (do now)			
Procurement cards	This is now underway to review usage across all Council directorates following the report issued into use in Children’s Services.	October 2023	March 2024
Health and safety	Planning has commenced.	November 2023	March 2024
Procurement	Planning has commenced.	November 2023	March 2024
Information governance including FoI	Planning has commenced.	December 2023	July 2024
Category 2 (do next)			
Category 3 (do later)			
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.		

¹ This is the expected date the audit findings will be included in reports to the Audit Committee. The report will potentially be finalised sooner than this, and the date of issue will be included when reported to the Audit Committee. The next planned reports to the committee are in March 2024 and July 2024.

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
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 ¹
Financial / Corporate systems			
Category 1 (do now)			
Debtors	Fieldwork is nearly complete and a draft report is expected to be issued in November or December 2023.	April 2023	March 2024
Teesside Pension Fund – Administration	Fieldwork is underway.	October 2023	March 2024
Main accounting	Fieldwork is underway. The audit is now likely to reach draft report stage in December.	August 2023	March 2024
Treasury management	Planning has commenced.	November 2023	March 2024
Benefits & Council Tax Support	Fieldwork is underway.	October 2023	March 2024
VAT accounting	Planning has commenced.	November 2023	July 2024
Category 2 (do next)			
Payroll	This is a key financial system requiring effective internal controls. This was originally planned to start in Q3; however the service has requested a January start date due to work pressures in December.	January 2024	July 2024
Creditors	This is a key financial system requiring effective internal controls. This will commence following the debtors audit.	December 2023	July 2024

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
Teesside Pension Fund – Investments	This is a key financial system for the Pension Fund requiring effective internal controls.	January 2024	July 2024
Category 3 (do later)			
ICT			
Category 1 (do now)			
IT Applications (1)	Fieldwork underway. This is reviewing the Liquid Logic care system.	September 2023	March 2024
IT Applications (2)	Fieldwork underway. This is reviewing the iTrent HR system.	September 2023	March 2024
Category 2 (do next)			
Category 3 (do later)			
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.		
Operational audits			
Category 1 (do now)			
Domestic abuse	A scope of work has been agreed; however the audit has not progressed in part due to changes in senior management within Children's Services. The	May 2023	TBC

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
	audit is now likely to be deferred until 2024 once we have agreed new timescales with management.		
Public health governance	Fieldwork is now complete. This is likely to be finalised in December.	May 2023	March 2024
Supporting families	Quarterly review of grant claims. Q1 and Q2 are complete.	Ongoing	Ongoing
Agency staff (Children's Services)	Fieldwork is now complete. This is likely to be finalised in December.	August 2023	March 2024
Use of residential care	Fieldwork is underway.	September 2023	March 2024
Early years funding	Planning has commenced.	November 2023	July 2024
Direct payments	Planning has commenced.	November 2023	July 2024
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. The next audit will look at business continuity arrangements.	December 2023	July 2024
Category 2 (do next)			
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

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
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
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.	January 2024	July 2024
Category 3 (do later)			
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. Possible areas for review will be discussed with the new DCS.		
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.		
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.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
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. 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
Homecare	Reasonable Assurance	Payment data, forecasting, the link between the care assessment process, commissioning of care and care received.	26 th September 2023	There is no formal process for comparing invoiced amounts to services provided.	Capacity within the team will be increased to enable increased checking and monitoring reports will be produced and reviewed.	0	2
Purchasing cards (Children's Services)	Limited Assurance	Card usage, monitoring, treatment of VAT.	25 th October 2023	See further details below.	See further details below.	4	8
Tees Community Equipment Service	No Opinion Given	The audit provided advice in relation to compliance with Council regulations, monitoring of stock levels, payments for invoices and partnership agreements.	8 th November 2023	The service was not using the Council's invoicing system and was over-reliant on purchasing cards.	An action plan will be developed to reduce the use of purchasing cards and bring processes in line with the rest of the Council.	0	1

System/area	Opinion	Area reviewed	Date issued	Comments / Issues identified	Key management actions agreed	P1 actions	P2 actions
Selective landlord licensing	Substantial Assurance	Administration of the scheme, performance monitoring.	24 th November 2023	Systems are working well with few issues identified.	No P1/P2 actions agreed.	0	0

ADDITIONAL DETAILS OF AGREED ACTIONS

Finding	Priority	Agreed Action	Responsible Officer	Timescale
1. VAT is not being recorded on the RBS (banking) system in all instances where it could be, in order to maximise the money that the Council can claim back. Copies of VAT invoices/receipts are not always being provided to support the claiming of VAT.	1	The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled.	Head of Strategic Commissioning & Procurement	31 st October 2023
	1	Individuals granted authorisation to hold a card will have 1-1 training regarding the card process, including the essential element of VAT and the requirement to attach a receipt. The training will also include the how and when transactions should be reviewed, the need to include a full description of spend, and direction not to split transactions to avoid the need for transactions to be approved by a line manager.	Head of Strategic Commissioning & Procurement	30 th November 2023

Finding	Priority	Agreed Action	Responsible Officer	Timescale
	1	In exceptional circumstances where a receipt is not available the purchase must be approved by a line manager, with a documented reason why no receipt is available.	Director of Children's Care	30 th November 2023
	1	Arrangements will be implemented to ensure Chief Officer oversight of compliance with purchase card requirements.	Director of Children's Care	30 th November 2023
2. No evidence is available to demonstrate that the purchasing of flights using a purchasing card provided better value than using the Council's centralised travel bureau.	2	Travel bookings will be routed through the centralised travel bureau, purchasing cards will only be utilised for exceptional travel arrangements when the travel bureau is unable to support. In all circumstances, irrespective of spend, transactions related to travel will be authorised by the line manager.	Director of Children's Care	31 st October 2023
3. There is evidence of non-compliance with the requirements to review and approve purchasing card spend.	Agreed actions for finding 1 apply to this finding.			

Finding	Priority	Agreed Action	Responsible Officer	Timescale
4. The requirement to provide descriptions of purchasing card spend and supporting receipts are not being complied with.	2	Work will be undertaken with the bank (RBS) to ascertain if the description can be made mandatory.	Head of Strategic Commissioning & Procurement	31 st October 2023
5. Purchasing card spending limits are not being reviewed in order to establish if limits in excess of the default £1k limit are appropriate.	2	Individual limits per transaction and total monthly spend limits will be set for each cardholder. Any deviation from this will be actioned on a temporary basis with documented approval for the Head of Service and actioned for a maximum of 24 hours.	Director of Children's Care	31 st October 2023
	2	Where a permanent change is required then a business case evidencing the service need will be required signed off by the relevant Director and the S151 officer or their Deputy.	Head of Strategic Commissioning & Procurement	31 st October 2023
6. There are instances where cardholders have reviewed and approved their own spend.	2	Line Managers for each cardholder will be confirmed.	Director of Children's Care	31 st October 2023
	2	A quarterly review of all card holder information for accuracy will be undertaken to pick up instances where procurement have not been notified of staff changes.	Head of Strategic Commissioning & Procurement	31 st October 2023

Finding	Priority	Agreed Action	Responsible Officer	Timescale
7. Purchasing card payments have been split into several transactions to avoid the £1k threshold that requires line manager approval.	2	Individual limits per transaction and total monthly spend limits will be set for each cardholder.	Head of Strategic Commissioning & Procurement	30 th November 2023
	2	Procurement will provide monthly reports to Directors on Procurement Card spend and will sample transactions for split transaction activity.	Head of Strategic Commissioning & Procurement	30 th November 2023
8. No evidence is available to confirm that refunded transactions classified as fraudulent have been investigated.	3	Where fraudulent activity has been reported by a cardholder this will result in an investigation from procurement and a notification to internal audit. Details regarding this process will be included within the procurement card guidance.	Head of Strategic Commissioning & Procurement	30 th November 2023
9. Purchasing card guidance documents are not subject to a review process.	3	All associated policies for purchasing cards will be reviewed and updated, with clear dates and an indicated review period.	Head of Strategic Commissioning & Procurement	30 th November 2023

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 Audit Committee.

Actions completed

A total of 9 actions have been completed since the last report to this committee. A summary of the priority of the 9 completed actions are 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	2	1	0	2	0	0	0	0
2	6	2	0	2	2	1	0	1
3	1	3	0	0	0	0	1	0
Total	9	Total	0	4	2	1	1	1

Actions Outstanding

A total of 21 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	6	1	0	0	6	0	0	0
2	14	2	2	7	5	0	0	0
3	1	3	0	0	1	0	0	0
Total	21	Total	2	7	12	0	0	0

Of the 21 actions outstanding 14 have had a revised date agreed. The remaining 7 actions are currently being followed-up.

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

Ten 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 two actions are included in the table below. Revised dates have been agreed and we will follow these up when the new implementation dates become due.

Audit	Priority	Original Date	Revised Date	Finding / Action	Reason for Delay
Burials	2	31/12/2022	31/12/2023	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.	Implementation of these actions has been delayed due to some ongoing operational issues. Further revised dates have been agreed.
Burials	2	31/12/2022	31/01/2024	The arrangements for same day burials including the out of hours service will be reviewed and the circumstances in which they are offered documented.	