

# INTERNAL AUDIT PROGRESS REPORT

Date: 14 March 2024

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 5 March 2024.



## INTERNAL AUDIT PROGRESS

- 5 A summary of internal audit work currently underway, as well as work finalised during 2023/24 is included at annex A, below.
- 6 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.
- 7 Two audits have reached draft report stage since the last progress report to this committee in December 2023. We are currently discussing the findings with management in order to agree actions to address the issues identified.
- 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 are currently assessing which of these audits will be included as a priority for audit in 2024/25 alongside any new and emerging audit areas identified as part of our continuous audit planning process.
- 9 Four audits have been finalised since the last report to this committee. The findings from three of the audits are summarised in Annex C. The remaining report relating to the Council's acquisition of the former Crown public house is attached to the covering report as Appendix 2.

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

## FOLLOW-UP OF AGREED ACTIONS

- 11 Following an audit, actions are agreed with the responsible managers to address any issues found. All actions agreed are followed up to ensure that any 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
Public health governance	Draft report issued
Agency staff (Children's Services)	Draft report issued
Teesside Pension Fund – Administration	In progress
Main accounting	In progress
Treasury management	In progress
Use of residential care	In progress
Health and safety	In progress
Benefits and Council Tax Support	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
Creditors	In progress
Continuing healthcare	In progress
Commercial property income	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

Audit	Reported to Committee	Opinion
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
IT applications – Liquid Logic	March 2024	Substantial Assurance
IT applications – iTrent	March 2024	Substantial Assurance
Acquisition of the former Crown public house	March 2024	No opinion given
Debtors	March 2024	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 the 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 <sup>1</sup>
<b>Corporate &amp; cross cutting</b>			
<b>Category 1 (do now)</b>			
Procurement cards	This is now underway and involves the review of procurement card usage across all Council directorates following the audit report issued in respect of Children’s Services. Some interim findings have been shared with management and a full follow-up will take place in Q1 2024/25.	October 2023	July 2024
Health and safety	Fieldwork is complete.	November 2023	July 2024
Procurement	Planning has started. This has been delayed as we have been discussing the potential scope of the audit with officers.	March 2024	July 2024
Information governance including FoI	Planning has started.	February 2024	July 2024
<b>Category 2 (do next)</b>			
<b>Category 3 (do later)</b>			
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.		

<sup>1</sup> 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.

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Decision making and Council governance	The Council has had several governance related issues in recent years which 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 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>			
Teesside Pension Fund – Administration	Fieldwork is underway.	October 2023	July 2024
Main accounting	Fieldwork is complete.	August 2023	July 2024
Treasury management	Fieldwork is underway.	November 2023	July 2024
Benefits & Council Tax Support	Fieldwork is complete.	October 2023	July 2024
VAT accounting	Fieldwork is underway.	November 2023	July 2024
Creditors	Planning has started.	February 2024	July 2024
<b>Category 2 (do next)</b>			
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 2024 start date due to work pressures in December. The audit is now likely to start in April.	April 2024	July 2024
Teesside Pension Fund – Investments	This is a key financial system for the Pension Fund requiring effective internal controls. This review will start following the conclusion of the Pension Fund – Administration audit.	April 2024	July 2024



Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
<b>Category 3 (do later)</b>			
<b>ICT</b>			
<b>Category 1 (do now)</b>			
<b>Category 2 (do next)</b>			
<b>Category 3 (do later)</b>			
IT asset management	This is now a potential audit 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>			
Public health governance	Draft report issued.	May 2023	July 2024
Supporting families	Quarterly review of grant claims. Q1, Q2 and Q3 are complete.	Ongoing	Ongoing
Agency staff (Children's Services)	Draft report issued.	August 2023	July 2024
Use of residential care	Fieldwork is nearly complete.	September 2023	July 2024

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Early years funding	Fieldwork is underway.	January 2024	July 2024
Direct payments	Fieldwork is underway.	February 2024	July 2024
Schools themed audit	Fieldwork is underway.	November 2023	July 2024
Commercial property income	Planning has started.	March 2024	July 2024
Continuing healthcare (CHC)	Fieldwork is underway.	February 2024	July 2024
<b>Category 2 (do next)</b>			
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 cover a number of financial and non-financial processes.	April 2024	July 2024
Housing development	A review of the arrangements to regenerate housing provision in Middlesbrough.	April 2024	July 2024
<b>Category 3 (do later)</b>			
Domestic abuse	The scope was previously agreed however, the audit has not progressed in part due to changes in senior management within Children's Services. The audit is now likely to start in Q1 2024/25.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Ofsted Improvement Plan	This remains a high risk for the Council and progress is regularly reported to the Executive. We have reviewed the Improvement Plan in the past and further areas for review will be discussed with the 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.		
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 to work within budget. 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 recently conducted an audit of this area so 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.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Burials (follow-up)	An audit of the burials service was carried out in 2022/23 which resulted in the need for a number of service improvements. 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
IT applications – Liquid Logic	Substantial Assurance	Access and authentication measures, change management, system performance.	9 Feb 2024	Procedures and controls are working well.	No significant actions agreed.	0	0
IT applications - iTrent	Substantial Assurance	Access and authentication measures, change management, system performance.	15 Feb 2024	Procedures and controls are working well.	No significant actions agreed.	0	0
Debtors	Substantial Assurance	Debt recovery, write-offs, credit notes	27 Feb 2024	Procedures and controls are working well.	No significant actions agreed.	0	0

**A copy of the audit report on the Council’s acquisition of the former Crown public house is attached to the covering report as appendix 2.**

## ANNEX D: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

<b>Audit opinions</b>	
<p>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.</p>	
<b>Opinion</b>	<b>Assessment of internal control</b>
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.
<b>Priorities for actions</b>	
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 11 actions have been completed since the last report to this committee. A summary of the priority of the 11 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
<b>1</b>	4	1	0	1	2	0	1	0
<b>2</b>	5	2	1	3	0	1	0	0
<b>3</b>	2	3	0	2	0	0	0	0
<b>Total</b>	<b>11</b>	<b>Total</b>	<b>1</b>	<b>6</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>0</b>

## Actions Outstanding

A total of 14 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	3	1	0	0	3	0	0	0
2	9	2	1	6	2	0	0	0
3	2	3	0	1	0	0	1	0
<b>Total</b>	<b>14</b>	<b>Total</b>	<b>1</b>	<b>7</b>	<b>5</b>	<b>0</b>	<b>1</b>	<b>0</b>

Of the 14 actions outstanding 10 have had a revised date agreed. The 4 remaining actions are currently being followed up.

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

Seven P1 or P2 actions have currently been outstanding for more than 6 months. Of these, 4 actions relate to the audit of the Transporter Bridge, details of which have been reported previously to this committee. The actions are operational in nature and will not be dealt with until the bridge is brought back into operation, for which there is no agreed date. We have therefore removed the actions from our normal follow up process.

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 become due.



Audit	Priority	Original Date	Revised Date	Finding / Action	Reason for Delay
Burials	2	31/12/2022	31/03/2024	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.	Whilst some progress has been made on each of these actions, implementation of these actions has been delayed due to some ongoing operational issues. Further revised dates have been agreed.
Burials	2	31/12/2022	31/03/2024	The arrangements for same day burials including the out of hours service will be reviewed and the circumstances in which they are offered documented.	
Burials	2	30/06/2023	31/03/2024	A Bereavement Services framework will be produced to include a strategy setting the direction for change and an action plan setting out how that change will be delivered	