

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 6 December 2017
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Audit and Assurance Report for the Period July to September 2017.

Summary

The purpose of the report is:

- **To provide a summary of the work of Audit and Assurance during the period July to September 2017.**
- **To provide ongoing assurance to the Council on the adequacy of its control environment.**

Recommendation

The Accounts and Audit Committee is asked to note the report.

Contact person for access to background papers and further information:

Name: Mark Foster – Audit and Assurance Manager
Extension: 1323

Background Papers: None

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TRAFFORD
COUNCIL

Audit and Assurance Service Report July to September 2017

Date: November 2017

1. Purpose of Report

This report summarises the work of the Audit and Assurance Service between July and September 2017 and highlights progress against the 2017/18 Internal Audit Plan to date. At the end of the year, these quarterly reports will be brought together in the Annual Head of Internal Audit Report which will give the opinion on the overall effectiveness of the Council's control environment during 2017/18.

2. Planned Assurance Work

Key elements of the 2017/18 Work Plan include:

- Fundamental Financial Systems reviews.
- Facilitating the completion of the Annual Governance Statement for 2016/17.
- Continued input to risk management arrangements and provision of guidance.
- Review of corporate procurement and value for money arrangements.
- ICT audit reviews.
- Anti fraud and corruption work.
- Ongoing advice to services and input / advice in respect of key projects across the Council.
- School audits and other establishment audit reviews.
- Grant claim certification work
- Audit reviews of other areas of business risk.

3. Main areas of focus – Q2 2017/18

Work in this quarter included a particular focus on the following :

- Audit review work in respect of fundamental financial systems including the issue of a number of audit opinion reports.
- Progressions of a number of other audit reviews from the Internal Audit Plan.
- Work to assist management with an ongoing contract monitoring review in relation to the One Trafford Partnership.
- Checks in relation to grant claims to meet relevant deadlines.
- Continued progression of work supporting the National Fraud Initiative.
- Co-ordinating the completion and sign off of the finalised version of the Annual Governance Statement.

4. Summary of Assurances for 2nd Quarter 2017/18

There were 10 internal audit opinion reports issued in the quarter, 6 final reports and 4 at draft stage. A number of other audit reports were in progress, to be formally issued in quarter three. A listing of audit report opinions issued including overall findings is shown in Section 5.

In respect of the final reports issued at least "Adequate" Opinions (Medium or above) were given in relation to 5 of the 6 reports issued. For all final reports issued, where applicable, agreed action plans are in place to implement the recommendations made.

5. Summary of Audit & Assurance Opinions Issued – Q2: 2017/18

(See Appendix 4 for definitions of opinion levels, report levels and report status)

| REPORT NAME (DIRECTORATE) / (PORTFOLIO) by Coverage Level (1-4) | -OPINION -R/A/G -Date Issued | COMMENTS |
|---|---|---|
| <u>FINAL REPORTS</u> | | |
| <u>Level 4 Reports :</u> | | |
| Council tax (T&R) / (Corporate Resources) | High (GREEN) (10/7/17) | Based on the controls reviewed, a high level of assurance has been maintained with a good level of control found to be in place, with no recommendations made in this review. |
| Treasury Management (T&R) / Corporate Resources) | High (GREEN) (18/9/17) | A high level of assurance has been maintained and no formal recommendations were made as part of the audit. |
| Health and Safety (T&R) / Corporate Resources) | Medium/High (GREEN) (21/7/17) | The review covered corporate health and safety processes within the Council's Health and Safety Unit. Well defined systems and controls are in place to manage risks and a small number of recommendations were made to further enhance arrangements. |
| <u>Level 1 Reports:</u> | | |
| Coppice Avenue Library (T&R) / (Communities and Partnerships) | Medium* (GREEN) (8/8/17) | The audit review followed up recommendations previously made in 2016/17. Good progress has been made. Of the six recommendations made, one has been fully implemented, two substantially implemented, two are ongoing and one outstanding recommendation was agreed to be implemented. |
| Bollin Primary School (CFW) / (Children and Families) | Low/Medium (AMBER) (27/7/17) | A significant number of recommendations were made to improve controls across a number of areas reviewed. Findings highlighted the need to ensure that purchases made adhere to the School's financial procedures. In order to demonstrate that value for money in purchasing is sought, the school should ensure that the quote and tender process set out in the Financial Procedures Manual is followed. At the time of the review it was acknowledged that the school was already in the process of reviewing and improving its governance and internal control processes and an agreed action plan is included in the audit report to address the recommendations made. |
| St. Hugh's RC Primary School (CFW) / (Children and Families) | Medium/High (GREEN) (27/9/17) | Overall, a good standard of internal control and governance was found to be in place across most areas covered by the audit. Some recommendations were made including in relation to lettings and also inventory maintenance. |
| <u>DRAFT REPORTS</u> | | |
| <u>Level 4 Reports:</u> | | |
| Accounts Receivable / Debt Recovery (T&R) / (Corporate Resources) | | Draft report issued. Final report with audit opinion issued in Quarter 3. |
| Non Domestic Rates (NDR) (T&R) / (Corporate Resources) | | Draft report issued. Final report with audit opinion issued in Quarter 3. |
| SAP Financial System IT Access Controls – follow up (T&R) / (Corporate Resources) | | Draft report issued. Final report with audit opinion issued in Quarter 3. |
| <u>Level 1 Reports:</u> | | |

| | |
|---|---|
| Broadheath Primary School (CFW) / (Children and Families). | Draft report issued. Final report with audit opinion issued in Quarter 3. |
| <u>OTHER REPORTS IN PROGRESS</u> | |
| <u>Level 2 Reports:</u> | |
| Aids and Adaptations (CFW) / (Adult Social Care) | Initial findings shared with management. |
| Payments to Care Leavers (CFW) / Children and Families) | Initial findings shared with management. |
| <u>Level 1 Reports:</u> | |
| Wellfield Infant and Nursey School (CFW) / (Children and Families) | Findings discussed with Headteacher. Final report to be issued in Q3. |
| <i>*Denotes this is a follow up audit – i.e. the main focus of the review was a follow up of recommendations made as part of a previous internal audit review</i> | |

6. Other Assurance Work

There is a significant amount of work undertaken by the Service that does not result in an audit opinion report being issued. Work in the quarter has included the following:

There has been ongoing work such as the provision of advice and co-ordinating the update of the Council's Strategic Risk Register. Other work undertaken during Q2 included:

- Continuing to work with the Information Governance team and within the Information Security Governance Board (ISGB) to progress actions agreed following the audit by the Information Commissioner's Office (ICO). (An update on progress was provided to the ICO which included some actions Audit has contributed to including the drafting of an Information Risk Policy).
- Ongoing work in liaison with other services to follow up data matches provided by the Cabinet Office following submission of data as part of the National Fraud Initiative (outcomes will be reflected in the Quarter Three Audit and Assurance update).
- Completing a number of checks as part of the process for certifying grant claims with work completed in relation to the Public Health Grant, Local Growth Fund, Integrated Transport and Highways Maintenance Grant and Disabled Facilities Grant.
- Working to assist management by contributing to an ongoing contracts monitoring review of the One Trafford Partnership.
- Providing guidance to schools on internal control to supplement the internal audit process with the publication of an updated Control Risk Self-Assessment (CRSA) form which was issued in the weekly schools bulletin to schools and the Trafford Services for Education website.
- Arranging for sign off and publication of the Final 2016/17 Annual Governance Statement.
- Following up an incident of a loss of cash within a service area and provision of recommendations and guidance to improve controls which have been agreed.

7. Impact of Audit Work – Improvements to the Control Environment

Key indicators of the impact of Audit and Assurance are: (a) Acceptance of Recommendations (b) Implementation of them.

Acceptance of Recommendations

From the final audit opinion reports issued during the quarter, 98% of recommendations have been accepted (59 out of 60 recommendations made). In the year to date 97.5% have been accepted (157 out of 161 recommendations) against a service target of 95%.

Implementation of Audit Recommendations

Final audit reports are followed up to assess progress in implementing improvement actions identified through audit recommendations. Recommendations made by the Audit and Assurance Service are followed up by a number of means.

As listed under final reports in Section 5, a follow up audit was completed at Coppice Avenue Library.

In respect of a number of audits previously completed, managers are requested to provide an update on progress in implementing recommendations made. Most updates are being requested through quarter 3 and quarter 4. During quarter 2 an update was received as follows:

- Insurance (Transformation and resources) – Further to an audit of Insurance in 2016/17, management have reported that both recommendations made have been implemented.

The quarter 3 update will include outcomes for that period and a summary of outcomes in the year to date.

8. Performance against Audit & Assurance Annual Work Plan

Appendix 1 shows an analysis of time spent to date against planned time for the 2017/18 Operational Internal Audit Plan

As at the end of quarter two, 544 audit days were spent against 468 planned allocated days.

As part of the Internal Audit Plan, a target of 40 audit opinion reports was set to be issued during 2017/18. As at the half-year stage, 17 opinion reports were issued to final or draft stage with a further 3 reports where findings have been shared with management for comments.

9. Client satisfaction surveys (April to September 2017)

Client Surveys: A client questionnaire is sent out with each audit report canvassing managers' views on the conduct of the audit review and its impact.

In terms of responses received in the period in respect of various aspects of the audits, **feedback of “Very Good” or “Good” was provided in 97% of responses.** A summary of feedback is shown in **Appendix 3.** A summary of responses received for the whole year will be included as part of the Annual Head of Internal Audit Report 2017/18.

10. Planned Work for Quarter 3, 2017/18

Areas of focus include :

- Issue of 7 final audit reports in relation to the following reviews currently at draft report stage or in progress:
 - Accounts Receivable / Debt Recovery; Non Domestic rates, SAP IT Access controls; Payments to Care Leavers; Aids and Adaptions; Wellfield Infant and Nursery School; Broadheath Primary School.

- Issue of a number of other audit reports including:
Two IT Audits (Software licensing and also IT Service desk reviews); financial system review in relation to Benefits/Council Tax Reduction; review in relation to the STAR Shared Procurement Service procedures regarding the financial vetting of suppliers; and an audit of Partington Children's Centre.
- Progression of other audit reviews as listed in Appendix 2.
- Supporting CLT in the refresh of the Strategic Risk Register and subsequent reporting to the Accounts and Audit Committee.
- Ongoing liaison with Legal and Democratic Services in relation to confirming arrangements for the production of the 2017/18 Annual Governance Statement.
- Continuing to work with management to support review work in relation to the One Trafford Partnership.
- Ongoing liaison with relevant services to progress data matching as part of the National Fraud Initiative (with an update on outcomes to be included within the Q3 Audit and Assurance update).
- Receiving an external assessment of Internal Audit in accordance with the Public Sector Internal Audit Standards. An assessment visit is to be undertaken by CIPFA in November 2017. Findings will be reported to CLT and the Accounts and Audit Committee when finalised.

2017/18 Operational Plan: Planned against Actual Work (as at 30 September 2017)

| Category | Details | Planned Allocated Days 2017/18 | Planned Days (up to 30/9/17) | Actual Days (as at 30/9/17) |
|----------------------------------|---|---|---|--|
| Fundamental Systems | Completion of fundamental financial systems reviews: (See Appendix 2 for opinion reports issued and planned to be issued during 2017/18). | 230 | 105 | 108 |
| Governance | <p>Corporate Governance Review / Collation of supporting evidence and production of the 2016/17 Annual Governance Statement (AGS). Corporate Governance Code updated and 2017/18 AGS approved by the Accounts and Audit Committee in September 2017.</p> <p>Further work planned for the rest of 2017/18 includes:</p> <p>Ethical governance – work with Legal and Democratic Services to review procedures and guidance in respect of declaring interests, gifts and hospitality.</p> <p>Ongoing advice / assurance in respect of governance issues.</p> | 40 | 28 | 26 |
| Corporate Risk Management | <p>Facilitating the updating of the Council's strategic risk register and other actions to support the Council's Risk Management Strategy including provision of guidance.</p> <ul style="list-style-type: none"> - Strategic Risk update report completed in June 2017 and reviewed by CLT in July 2017. Further updates during 2017/18 to be shared with CLT and the Accounts and Audit Committee (at its December 2017 and March 2018 meetings). - Risk management guidance on the intranet has been updated to reflect updated Policy, Strategy and guidance. | 25 | 12 | 9 |
| Anti-Fraud and Corruption | <p>Investigation of referred cases: (Summary of work completed during the year to be set out in Annual Head of Internal Audit Report and reflected where applicable in quarterly updates).</p> <p>Co-ordinate the Council's activity in respect of the National Fraud Initiative: (Summary of work completed and outcomes to be included in the Quarter 3 Audit and Assurance update and reflect in the Annual Head of Internal Audit Report).</p> <p>Other work to support the Ant-Fraud and Corruption Strategy, including where applicable working with other relevant services to review existing policies and guidance supporting the</p> | 100 | 50 | 86 |

| | | | | |
|---|--|-----|----|-----|
| | overarching strategy. (Audit is currently liaising with Legal Services to consider further). | | | |
| Procurement / Contracts/ Value for money | Review of procurement / contract management arrangements including systems in place and associated arrangements to secure value for money (Work will include liaison with the STAR Procurement Service and partner authority auditors). See Appendix 2 for reports completed and planned. | 80 | 30 | 36 |
| ICT Audit | Audit reviews to be completed in line with the ICT audit plan. See Appendix 2 for work undertaken/planned. | 70 | 28 | 27 |
| Schools | Providing assurance on the control environment within schools, supporting schools in ensuring awareness of requirements within the DfE Schools' Financial Value Standard (SFVS). Undertake School Audit reviews (Issue of at least 15 Audit Opinion Reports). See Appendix 2 for audit opinion reports issued and planned. (7 final reports issued, 1 draft report issued and 1 review where draft findings have been shared with report to be issued). | 170 | 80 | 112 |
| Assurance – Other Key Business Risks | Audits selected on the basis of risk from a number of sources including senior managers' recommendations, risk registers and internal audit risk assessments. Reviews include authority wide issues and areas relating to individual services, establishments and functions. Includes: - Audit reviews - Follow up reviews including further audits and gaining assurance from service updates. See Appendix 2 for audit opinion reports issued and other work completed / planned. | 230 | 90 | 67 |
| Grant claims checks / Data Quality | Internal audit checks of grant claims / statutory returns as required. Checks completed to date have covered: - Public Health - Local Growth Fund. - Integrated Transport and Highways Maintenance Grant - Disabled Facilities Grant. | 35 | 15 | 21 |
| Service Advice / Projects | General advice, both corporately and across individual service areas. Support and advice to the organisation in contributing to working groups and projects in relation to governance, risk and control issues. To date this has Included: - contributing to work of the Information Security | 60 | 30 | 52 |

| | | | | |
|--------------|---|-------------|------------|------------|
| | Governance Board; - contributing to the development of the Digital Strategy. | | | |
| TOTAL | | 1040 | 468 | 544 |

Audit Opinion Reports Issued and Planned 2017/18 (as at 30 September 2017)

| <u>Category</u> | <u>Audit Opinion Reports</u> | <u>Status (where progressed by Q2)</u> | <u>2017/18 IA Plan</u> |
|--|---|--|---|
| Fundamental Systems | <ul style="list-style-type: none"> -Accounts Receivable & Debt Recovery (T&R) - Treasury Management (T&R) - Council Tax (T&R) - Payroll (T&R) - Income Control (T&R) - NDR (T&R) - Benefits/Council Tax reduction (T&R) - Accounts Payable (T&R) - Liquid Logic/ContrOCC system (CFW/T&R) - Direct Payments (CFW) | <ul style="list-style-type: none"> Draft report issued 13/9/17 Final report issued 18/9/17 Final report issued 10/7/17 - - Draft report issued 25/9/17 In progress - - - | <ul style="list-style-type: none"> Final report issued in Q3 Completed. Completed. Commence by Q4. Commence by Q3. Final report issued in Q3. Draft report to be issued Q3 Commence by Q4. Commencing Q3. Commence by Q4. |
| Procurement /Contracts /Value for money | <ul style="list-style-type: none"> - Contracts Register (STAR Authorities – Rochdale lead) (T&R) - Financial vetting of firms (STAR Authorities – Trafford lead) (T&R) - STAR Quality Management System (STAR Authorities – Stockport lead) (T&R) - Social Value in Procurement (STAR authorities – Trafford lead) (T&R/Authority Wide) - Contract Procedure Rules (STAR Authorities – Stockport lead) (T&R/Authority-Wide) - One Trafford Partnership (EGEI) | <ul style="list-style-type: none"> - In progress - - In progress Ongoing contribution to a Council review | <ul style="list-style-type: none"> Timing to be agreed (Rochdale). Draft report to be issued Q3 Timing to be agreed (Stockport). Commence in Q4. Draft report to be issued Q3 |
| ICT Audit | <ul style="list-style-type: none"> - SAP financial system access controls (T&R) - IT Change Management follow-up audit (T&R) - Software Licensing (T&R) - Cyber Security (T&R) - ITrent System IT Application Controls (T&R) - IT Service Desk (T&R) | <ul style="list-style-type: none"> Draft report issued. - In progress - - In progress | <ul style="list-style-type: none"> Final report issued in Q3. Commence by Q4. Final report to be issued Q3. Commence by Q3. Commence by Q4. Final report to be issued Q3. |
| Schools | <ul style="list-style-type: none"> - Barton Clough Primary School - Well Green Primary School - Our Lady of the Rosary RC Primary School - Wellfield Junior School - Moss Park Infant School - Bollin Primary School - Wellfield Infant and Nursery School - St. Hugh's RC Primary School - Broadheath Primary School - At least 6 further reports planned to be issued in 2017/18 (including English | <ul style="list-style-type: none"> Final report issued 24/4/17 Final report issued 23/5/17 Final report issued 23/5/17 Final report issued 27/6/17 Final report issued 28/6/17 Final report issued 27/7/17 Draft findings agreed with Headteacher. Final report issued 27/9/17 Draft report issued 29/9/17 2 school audits booked to be undertaken in Q3 | <ul style="list-style-type: none"> Completed Completed Completed Completed Completed Completed Completed Final report to be issued Q3 Completed Final report issued in Q3. Of these 6 schools, 1 final report to be issued in Q3 and |

Client Survey Responses 2017/18 (as at 30 September 2017)

| | V.Good | Good | Satisfactory | Adequate | Poor |
|---|------------------|-------------|--------------|-------------|--------------|
| Consultation on audit process and audit coverage prior to commencement of the audit | 7 | 1 | | | |
| Feedback of findings and liaison during the audit | 7 | 1 | | | |
| Professionalism of auditors | 7 | 1 | | | |
| Helpfulness of auditors | 7 | 1 | | | |
| Timeliness of the review and the draft report | 5 | 2 | 1 | | |
| Clarity of the report | 7 | 1 | | | |
| Accuracy of the report | 5 | 3 | | | |
| Practicality of the recommendations made | 5 | 1 | 1 | | |
| Usefulness of the audit as an aid to management | 5 | 3 | | | |
| Total | 55 | 14 | 2 | 0 | 0 |
| % | 77% | 20% | 3% | 0% | 0% |
| | | | | | |
| | Very Significant | Significant | Moderate | Minor | None |
| What level of improvement, in the standard of control and the management of risks, do you expect to see following the audit review? | 1 | 0 | 3 | 1 | 3 |
| % | 12.5% | 0% | 37.5% | 12.5 | 37.5% |

(Note: the results are based on responses from 8 client surveys received in the period).

POINTS OF INFORMATION TO SUPPORT THE REPORT:

Audit Opinion Levels (RAG reporting) :

Opinion – General Audits

| | |
|-------------------------|-------|
| High – Very Good | Green |
| Medium / High – Good | Green |
| Medium – Adequate | Green |
| Low / Medium - Marginal | Amber |
| Low – Unsatisfactory | Red |

An opinion is stated in each audit report to assess the standard of the control environment.

Report Status:

Draft reports:

These are issued to managers prior to the final report to provide comments and finalise agreed responses to audit recommendations.

Final reports:

These incorporate management comments and responses to audit recommendations, including planned improvement actions.

Breadth of coverage of review (Levels 1 to 4)

Provides an indication as to the nature / breadth of coverage of the review in terms of which aspects of the organisation's governance and control environment it relates to. Levels are as follows:

- **Level 4 : Key strategic risk or significant corporate / authority wide issue** - Area under review directly relates to a strategic risk or a significant corporate / authority wide issue or area of activity.
 - **Level 3 : Directorate wide** - Area under review has a significant impact within a given Directorate.
 - **Level 2 : Service wide** - Area under review relates to a particular service provided or service area which comprises for example a number of functions or establishments.
 - **Level 1 : Establishment / function specific** - Area under review relates to a single area such as an establishment.
-