

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 20 November 2013
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Audit and Assurance Report for the Period July to September 2013.

Summary

The purpose of the report is:

- **To provide a summary of the work of Audit and Assurance during the period July to September 2013.**
- **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



TRAFFORD
COUNCIL

Audit and Assurance Service Report July to September 2013

Date: 20 November 2013

1. Purpose of Report

This report summarises the work of the Audit and Assurance Service between July and September 2013. At the end of the year, these quarterly reports will be brought together in the Annual Internal Audit Report which will give the Audit and Assurance Service's opinion on the overall effectiveness of the Council's control environment during 2013/14.

2. Planned Assurance Work

Key elements of the 2013/14 Work Plan include:

- Fundamental Financial Systems reviews.
- Annual corporate governance review and completion of the Annual Governance Statement for 2012/13.
- Audits of council partnership arrangements.
- Continued review of risk management arrangements and provision of guidance.
- Review of Corporate Procurement Arrangements 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, including supporting the council's transformation agenda.
- School audits and other establishment audit reviews.
- Audit reviews of other areas of business risk.

3. Main areas of focus – Q2 2013/14

Work in this quarter covered a number of the main themes listed above including :

- Completion of the Corporate Governance review and final 2012/13 Annual Governance Statement;
- Fundamental financial system reviews;
- Completion and issue of a number of school and other establishment audit reports.
- Supporting a corporate review of systems and processes within the Environment, Transport and Operations Directorate.
- Completion of an audit review of corporate processes supporting business continuity arrangements.
- Reporting on the audit review of the ICT Data Centre.

Points of information to support the report:

Audit Opinion Levels (RAG reporting) :

Opinion – General Audits

High – Very Good

Medium / High – Good

Medium – Adequate

Low / Medium - Marginal

Low – Unsatisfactory

Green

Green

Green

Amber

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 a response 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.

Level of Risk Associated with Opinion Level and Breadth of Coverage

This provides an estimate of the level of risk given the audit opinion provided and breadth of coverage of the review.

High Risk (H) – Red Opinion / Level 3 or 4

Medium Risk (M) – Red Opinion / Level 1 or 2 , or
Amber Opinion / Level 2, 3 or 4.

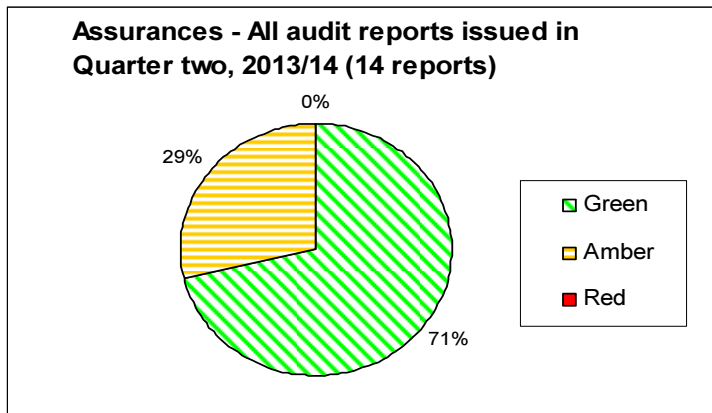
Low Risk (L) – Green Opinion or Amber Opinion / Level 1.

Summary of Assurances for 2nd Quarter 2013/14

Q2 – 2013/14

9 final reports and 5 draft reports

Chart 1 – Analysis of Assurance by Opinion Levels (Quarter 2)



Year to Date (up until 30 September 2013)

21 final reports and 7 draft reports

Chart 2 - Analysis of Assurance by Opinion Levels (Year to Date)

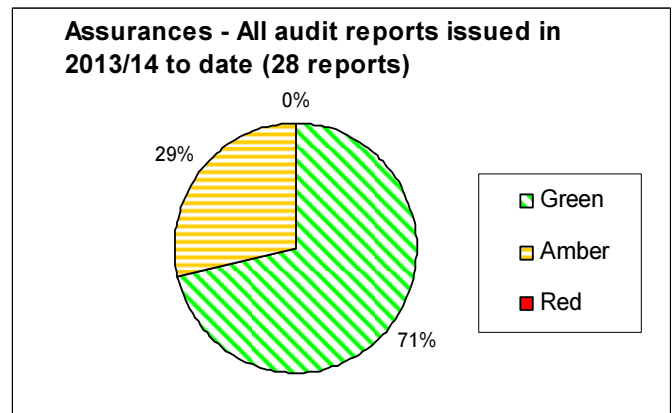


Chart 1 shows that good or at least adequate levels of control were in place for 71% of areas reviewed, which also reflects the position for the year to date Chart 2).

4. Overall Conclusions

A total of 14 audit reports were issued in the quarter, nine final reports and five draft reports. For 10 of the 14 reports issued, at least an adequate (Medium or above) opinion was given.

This included four High Opinions for four fundamental financial systems reviews (Final reports - Treasury Management, National Non-Domestic Rates and Draft Reports - Budgetary Control and Accounts Receivable) and one Medium/High opinion (Draft report - Debt Recovery).

The business continuity audit report was finalised (having been reported at draft stage in the 2012/13 Annual Internal Audit Report). The Low/Medium opinion reflected the ongoing work required in embedding business continuity processes at service level including monitoring arrangements across individual service areas.

There were two school final audit reports issued in the quarter (1 Medium opinion and one Low/Medium). For the latter, a follow up audit review will be undertaken in 2014/15.

As reported in Section 7, all recommendations made in the final reports issued have been accepted.

Other final reports issued during the period were

- Youth Offending Service (Medium/High)
- Old Hall Residential Unit (Medium)

Other draft reports issued during the period were:

- ICT Data Centre (audit opinion to be confirmed when the final report is issued).
- Integrated Children's System / Electronic Common Assessment Framework (Low/Medium). A number of recommendations were made in respect of system security, all of which were agreed in an action plan and progress will be followed up by Audit.

During the period, the Audit and Assurance Service also issued a report on its annual review of Corporate Governance arrangements which supported the process for agreeing the final version of the Annual Governance Statement, which was approved by the Accounts and Audit Committee at its 26 September 2013 meeting.

The Service also contributed to a corporate review of ETO systems and processes which included the issuing of a number of audit reports (Carrington Weighbridge, Fuel Cards and Stores reviews) details of which are covered in section 5 and 6.

(A listing of all audit report opinions issued including key findings is shown in Section 5).

5. Summary of Audit & Assurance Opinions Issued – Q2: 2013/14

REPORT NAME (DIRECTORATE) / (PORTFOLIO) by Coverage Level (1-4)	-OPINION -R/A/G -Date Issued	COMMENTS
FINAL REPORTS		
Level 4 Reports :		
Treasury Management 2012/13 (T&R) / (Finance)	High (GREEN) (9/8/13)	Ongoing compliance with controls in place has resulted in a high level of assurance being maintained for this year.
National Non-Domestic Rates 2012/13 (T&R) / (Finance)	High (GREEN) (30/9/13)	Ongoing compliance with controls in place has resulted in a high level of assurance being maintained for this year.
Business Continuity (T&R and Authority Wide) / (Transformation and Resources)	Low/Medium (AMBER) (5/9/13)	The Civil Contingencies Act 2004 (CCA) places a duty on local authorities to establish and maintain Business Continuity Plans and to ensure that organisations delivering services on its behalf can still deliver to the required extent in an emergency. The Authority completed a major update of its approach to business continuity management in 2009 which included development of procedural guidance, training and standard templates which are in place. As from May 2012, following changes to service structures, a number of officers within the Partnerships and Performance team have been designated as responsible for offering advice and guidance to staff on Business Continuity. The audit report concluded that given the revised arrangements it is acknowledged that further work is required to embed procedures particularly in relation to ongoing monitoring of business continuity arrangements across services. An action plan has been agreed and the review will be followed up as part of the 2014/15 Internal Audit Plan.
Fuel Cards (ETO & Authority Wide) / (Highways and Environment)	Medium (GREEN) (29/7/13)	This review included both review of the existing system and procedures and also advising on future developments planned given revised processes are currently being developed. A working group reflecting appropriate service areas (including representation from Audit) has been established with the aim to improve monitoring systems and processes including processes for regular monthly checks of usage of fuel cards. The overall "Medium" opinion given in the previous review remains with a revised audit opinion to be considered when a further full review is undertaken in 2014/15. This will assess the impact of revised fuel card monitoring processes currently being introduced.
Level 2 Reports:		
Carrington Depot Waste transfer system follow up review (ETO) / (Highways and Environment)	Medium * (GREEN) (9/7/13)	This was a follow up review, focussing on audit recommendations previously made. Initial findings highlighted a number of recommendations remained outstanding from the previous review resulting in the audit opinion remaining as "Medium". Audit continued to work with the service area through the quarter to agree remaining actions required and by the end of the period, seven of the eight outstanding recommendations had been implemented with one in progress. A full review will be undertaken in 2014/15 with a view to providing an updated audit opinion.
Youth Offending Service (CFW) / (Supporting Children and Families)	Medium / High (GREEN) (19/8/13)	Testing revealed a good level of compliance with controls covering most business risks. Recommendations were made in relation to reviewing and updating business continuity plans and also ensuring independent checks are part of the systems for maintaining petty cash imprest and inventory records.
Level 1 Reports :		
Old Hall Road Residential Unit (CFW) / (Supporting Children and Families)	Medium (GREEN) (23/7/13)	Overall, adequate standards of control were found to be in place. Recommendations made included procedures for maintaining and checking the petty cash imprest account, introducing independent inventory checks and ensuring service guidance is followed in respect of handovers of cash between individuals.

Stretford High School (CFW) / (Education)	Low/Medium (AMBER) (31/7/13)	There is a need to improve controls for a number of business risks to ensure adequate processes are in place to meet the requirements set out in the DfE Schools' Financial Value Standard. Recommendations were made across a number of areas including ordering and payment procedures, monitoring of lettings of the premises and maintenance of the school fund. An action plan has been agreed and recommendations will be followed up as part of a future audit review in 2014.
St Teresa's RC Primary School (CFW) / (Education)	Medium (GREEN) (24/9/13)	The audit found areas of good practice, but there is a need to improve controls for a number of areas to ensure associated risks are managed effectively. Improvements include introducing a greater division of duties within certain financial processes and ensuring there is up to date procedural documentation in place for financial / administrative systems.
<u>DRAFT REPORTS</u>		
<u>Level 3 Reports :</u>		
Budgetary Control 2012/13 (T&R) / (Finance)	High (GREEN) (25/9/13)	Ongoing compliance with controls in place has resulted in a high level of assurance being maintained for this year.
Debt Recovery 2012/13 (T&R) / (Finance)	Medium/High (GREEN) (30/9/13)	There have been significant improvements in systems since the previous audit review. Overall a good standard of control was found to be in place. To further improve existing processes a recommendation was made for Directorate level monthly reports to be taken from the Debt Recovery System (ASH) to be shared with relevant services to help enable issues to be managed at the point of service provision.
Accounts Receivable 2012/13 (T&R) / (Finance)	High (GREEN) (30/9/13)	Effective standards of control were found to be in place within the Revenues and Benefits Service.
ICT Data Centre (T&R) / (Transformation and Resources)	To be agreed (AMBER) (17/9/13)	The review was completed by Salford Audit Services on behalf of Trafford Audit and Assurance Service. This is a draft report which is currently shown as "Amber" as it includes reference to a number of queries to be clarified in response to draft recommendations made. An agreed opinion will be issued with the final report and a summary of findings will be included in a future update.
Integrated Children's System / Electronic Common Assessment Framework (CFW) / (Supporting Children and Families)	Low / Medium (AMBER) (21/8/13)	The purpose of the review was to assess the effectiveness of information security controls in place for the Children's care and case recording systems, ICS and ECAF. A number of recommendations have been made in relation to system security including the introduction of a process for the approval of new accounts, strengthening password security arrangements and system monitoring. (A final report has since been issued, to be reported in quarter three, with all recommendations accepted and included in an agreed action plan, with progress to be followed up and reported by Audit).

6. Other Assurance Work

There is a significant amount of work undertaken by the Service that does not result in an audit opinion being given. There is ongoing work such as the provision of advice; conducting investigation work; co-ordinating the update of the Council's Strategic Risk Register and undertaking financial appraisals of contractors.

In addition to the above, other work undertaken during Q2 included:

- Issue of the 2012/13 Corporate Governance review report and completion of the Council's 2012/13 Annual Governance Statement which was approved by the Accounts and Audit Committee in September 2013.
- Two training sessions in July 2013 held for school governors on the role of Internal Audit including a presentation on fraud awareness.
- A presentation given on the Role of Internal Audit at an induction event in September 2013 for new Head teachers of Trafford schools.

Environment, Transport and Operations Review

- Providing input to an ongoing corporate review of systems and processes within the Environment, Transportation and Operations Directorate. In addition to undertaking or following up on reviews included in the Audit Plan (Carrington

Weighbridge and Fuel Cards reviews are listed in Section 5) this has also included review work to support the corporate process. As part of this, a significant piece of work undertaken was in relation to the operation of the Stores at Carrington Depot.

- In respect of the Stores, work included reviewing procedures, providing advice and carrying out an investigation of a number of issues in relation to the controls for the issue of stock items, undertaking stock checks and monitoring material usage. As part of this ongoing review work, a number of recommendations have been made to improve controls, particularly in relation to the Stores function and the Street Lighting team. This has assisted the ETO Directorate in producing and implementing an improvement plan.

Risk Management

- As part of planned work in the first half of 2013/14, Audit and Assurance has reviewed and updated existing risk management guidance available on the Council's intranet. This has included the update of a number of guidance documents. This includes the existing risk management service guidance; guidance on examples of risks and possible actions to review / address these; protocols for risk management reporting and also guidance for report writing in respect of risk management.
- The risk management e-learning tool, completed in 2012/13, has now been added to the Council's Virtual College e-learning site, available to access through the intranet.
- As part of ongoing liaison with relevant contacts across the Council's Directorates, in the second half of the year the Audit and Assurance Service is in the process of sharing the updated guidance / good practice.

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

- For the nine final reports issued during the quarter, **all 93 recommendations made have been accepted.**
- In the year to date, **97% of all recommendations made (211 out of 217) have been accepted** (Service annual target is 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. These include:

- Through reviews undertaken on an annual or cyclical basis e.g. fundamental systems reviews, assessing progress in terms of ongoing improvements in controls.
- Internal audit follow up reviews which specifically review progress made in implementing all recommendations in previous audit reviews.
- Requesting assurance from managers as to progress made by the completion of self assessments.

In terms of the **fundamental financial systems reviews**, for the five audit reports issued, **all audit opinions had been maintained** compared to the previous year (Budgetary Control, NNDR, Treasury Management) **or improved** (Accounts Receivable improving from Medium/High to High and Debt Recovery improving from Low to Medium/High).

As listed in section 5, a follow up audit was completed in this quarter of the Carrington Weighbridge Waste Transfer review. By the end of September 2013, seven of the eight recommendations had been implemented with one in progress.

Good progress was also indicated in respect of two other follow ups in the quarter. For Kings Road Primary School, 13 out of 17 recommendations had been implemented with four being progressed. A follow up through self-assessment of the audit review of the Council's arrangements for assessing contractors prior to submission of tenders (Pre-Qualification Questionnaire process) was completed. For this review, four of the five recommendations had been implemented to date.

To summarise **in respect of the year to date**, where specific follow up reviews have taken place through audits or self assessments (six reviews in total), **82% of recommendations have been implemented, 14% are in progress and 4% yet to be implemented.**

8. Performance against Audit & Assurance Annual Work Plan

Appendix A shows an analysis of time spent to date against planned time for the 2013/14 Operational Internal Audit Plan

As at the end of quarter two, 675 audit days were spent to date (against profiled, planned allocated days of 589 days).

There are some variations to note between planned and actual time taken against particular categories of work. In terms of financial systems review work, as at the end of September 2013, this is greater than planned. This is explained by the actual time spent being less than planned in the previous year as reported in the 2012/13 Annual Internal Audit Report. Review work originally planned to commence in March was delayed until the current year.

Time spent in respect of Anti-Fraud and Corruption work is also greater than planned. This is accounted for by higher than expected time on investigation activity between June and September 2013, the relevant pieces of work having now concluded and reported as appropriate. Subject to resource availability in the second half of 2013/14, it is currently expected that this variance will be met by contingency time allocated in the Plan.

For areas where lower than anticipated time has been spent in the period, it is expected that increased time will be spent in quarters three and/or four. Based on current resources, it is expected that all key areas of work will be completed or progressed as planned. This is being kept under review and CMT / Accounts and Audit Committee will be advised in the quarter three update if there are any changes to this position.

9. Planned / Ongoing Work for Quarter 3, 2013/14

Progress will continue to be made in completing each category of work in the audit plan. Areas of focus will include :

- Issue of the final audit report in respect of Section 106 Planning Agreements (final report actually issued in October 2013).
- Issue of report on Information Governance (draft report actually issued in October 2013).
- Issue of report from the Corporate Health and Safety internal audit review.
- Issue of further reports in respect of fundamental financial systems.
- Ongoing input to the Environment, Transport and Operations Directorate review.
- Commencement / progression of a number of other audits across the audit plan including audits in respect of the Local Welfare Assistance Scheme (Trafford Assist) and also an audit of arrangements for collecting income from staff car parking.
- Ongoing review of data matches as part of the National Fraud Initiative with the aim of reporting on outcomes in an update to the Accounts and Audit Committee in the final quarter of 2013/14.

APPENDIX A

2013/14 Operational Plan: Planned against Actual Work (as at 30 September 2013)

<u>Category</u>	<u>Details</u>	<u>Planned Days 2013/14</u>	<u>Planned Days (up to 30/9/13)</u>	<u>Actual Days (as at 30/9/13)</u>
Fundamental Systems	Completion of fundamental systems reviews including annual reviews relating to 2012/13. Planning and commencement of 2013/14 fundamental systems reviews.	200	115	146
Governance	Corporate Governance Reviews. Collation of supporting evidence and production of the 2012/13 Annual Governance Statement Audit reviews of governance arrangements for the Council's significant partnerships.	100	55	40
Corporate Risk Management	Progression of actions to support the Council's Risk Management Strategy including review of risk management processes and awareness raising and provision of guidance to services and partnerships.	40	20	12
Anti-Fraud and Corruption	Work supporting the Anti- Fraud and Corruption Strategy, including raising awareness of supporting guidance to promote measures to prevent, deter or detect instances of fraud and corruption. Continued work in supporting the National Fraud Initiative. Investigation of referred cases, including if applicable those highlighted through the National Fraud Initiative.	180	85	143
Procurement / Value for money	Review of procurement / contract management arrangements across the council including systems in place and associated arrangements to secure value for money.	100	30	16
ICT Audit	Reviews to be completed in line with the ICT audit plan. Investigation of misuse of ICT and awareness raising regarding appropriate use of ICT.	100	45	52
Schools	School Audit reviews Support the Council in raising awareness with schools of the DfE Schools Financial Value Standard (SFVS).	190	55	71
Establishments	Reviewing governance and control arrangements across a range of establishments.	80	30	14
Assurance – Other Key Business Risks	Selected on the basis of risk from a number of sources including senior managers' recommendations, risk registers and internal audit risk assessments. Reviews will include authority wide issues and areas relating to individual service areas.	150	65	79
Service Advice / Projects	General advice across all services. Support and advice to the organisation in carrying out key projects ensuring new systems, functions and procedures provide for adequate controls and good governance arrangements.	110	54	84

Financial Appraisals	Financial Assessments of contractors and potential providers	70	35	18
TOTAL		1320 *	589	675

*Note: There are 1450 planned available days in total but 130 days relate to contingency.