

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 5 February 2013
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Audit and Assurance Report for the Period October to December 2012.

Summary

The purpose of the report is:

- **To provide a summary of the work of Audit and Assurance during the period October to December 2012.**
- **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:

Audit and Assurance reports



TRAFFORD
COUNCIL

Audit and Assurance Service Report October to December 2012

Date: 5 February 2013

1. Purpose of Report

This report summarises the work of the Audit and Assurance Service between October and December 2012. 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 2012/13.

2. Planned Assurance Work

Key elements of the 2012/13 Work Plan include:

- Fundamental Financial Systems reviews
- Annual corporate governance review
- Completion of the Annual Governance Statement for 2011/12
- Audits of council partnership arrangements
- Continued review of risk management arrangements and provision of guidance.
- Review of Corporate Procurement Arrangements, contracts audits 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 such as libraries and children's centres
- Audit reviews of other areas of business risk.

3. Main areas of focus – Q3 2012/13

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

- Issue of the updated Anti-Fraud and Corruption Strategy
- Submission of data to the Audit Commission to support the National Fraud Initiative data matching exercise
- Commencement of a review and update of the Council's Risk Management Policy and Strategy to be completed in quarter four.
- Completion as planned of a number of audit reviews (to either draft or final report stage) including the Trafford Partnership, Complaints processes, Information Governance and a number of other reviews relating to individual services, functions, financial systems and schools.

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

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.

Where applicable, an opinion is stated in each audit report to assess the standard of the control environment.

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.

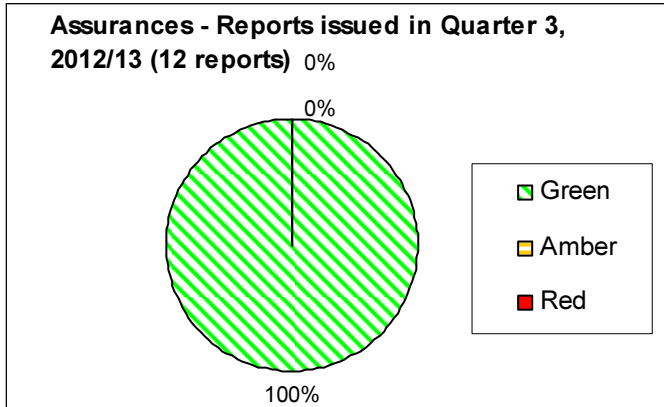
Low Risk (L) – Green Opinion or Amber Opinion / Level 1.

Summary of Assurances for 3rd Quarter 2012/13

Q3 – 2012/13

6 draft reports and 6 final reports

Chart 1 – Analysis of Assurance by Opinion Levels (Quarter 3)



Year to Date (up until 31 December 2012)

7 draft reports and 26 final reports

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

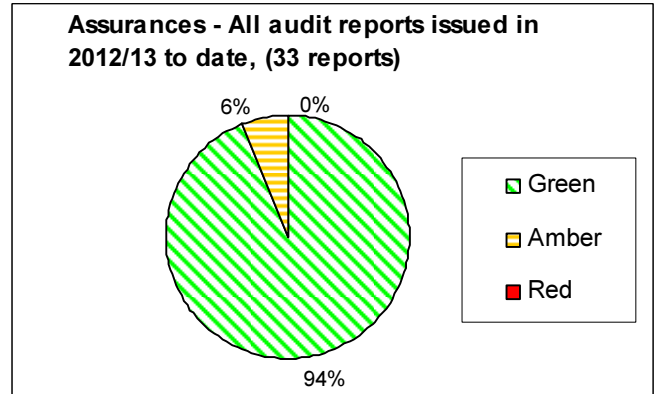


Chart 1 shows that good or at least adequate levels of control were in place for all reports issued in the quarter. For the year to date, good or at least adequate controls were in place for 94% of the reports issued (Chart 2).

4. Summary / Conclusions

A total of 12 audit reports were issued in the quarter, six final reports and six draft reports. All of the areas reviewed were overall deemed to have at least adequate controls in place.

This included High Opinions for the review of the Council's Income control processes and Medium/High opinions for two other reviews currently at draft report stage (Libraries Central Ordering processes follow up and an audit of St. Alphonsus RC Primary school).

Four other final reports issued were given a medium opinion where, whilst overall procedures were adequate, a number of areas for further development were identified. These related to reviews of Blue Badge procedures, foster care payments, Sale Waterside Facilities Management contract monitoring and Urmston Junior School.

As reported in Section 7, 98% of all recommendations made in the six final reports issued have been accepted.

In terms of other draft reports issued, medium opinions were given for reviews of the Trafford Partnership, Works Management and Fuel Cards monitoring. Responses to recommendations made will be incorporated in to final reports and details reported in a future update.

Three of the reviews undertaken were undertaken specifically to include follow up of recommendations made in previous audit reviews. (Libraries Central Ordering, Fuel Cards and Works Management). For these reviews, the audit opinion was at least maintained as Medium and in the case of the Libraries review had improved from Medium to Medium/High. Of the 32 recommendations made across the three reviews, 47% had been implemented with a further 34% implemented in part or no longer applicable. (Details in Section 7).

Other reports issued where a formal opinion was not given but findings reported related to Information Governance (issued as a follow up of a previous report intended for guidance purposes) and also a review of service complaints arrangements following up previous work undertaken by the Partnerships and Performance Service.

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

During the period, the Audit and Assurance Service led on producing the Council's updated Anti-Fraud and Corruption Strategy, including supporting policy and guidance documents, which was presented to the Accounts and Audit Committee in November 2012. (An update will be provided to the Accounts and Audit Committee in March 2013 on anti-fraud and corruption related work including investigative work and further work undertaken and planned to support the Strategy).

The Service also co-ordinated the submission of required data to the Audit Commission in October 2012 for the 2012/13 National Fraud Initiative.

5. Summary of Audit & Assurance Opinions Issued – Q3: 2012/13

REPORT NAME (DIRECTORATE) / (PORTFOLIO) by Coverage Level (1-4)	-OPINION -R/A/G -Date Issued	COMMENTS
FINAL REPORTS		
Level 4 Reports :		
Information Governance (Transformation and Resources) / (Transformation and Resources)	N/A * (GREEN) (14/11/12)	Follow up report of a previous review which was conducted by Salford Audit Services to provide advice and guidance on information governance arrangements using ISO27001 guidelines as a reference point. The review found good progress had been made in the development of an information governance structure and all of the high priority recommendations from the report on ISO27001 had been implemented.
Income Control 2011/12 (Transformation and Resources) / (Finance)	High (GREEN) (4/12/12)	A High audit opinion was given in the previous internal audit reviews and this has been maintained for the latest review.
Level 3 Reports :		
Sale Waterside Facilities Management : Cofathec / Cofely Contract Monitoring review (Economic Growth and Prosperity) / (Economic Growth and Prosperity).	Medium (GREEN) (21/12/12)	It is acknowledged that the overall contract monitoring and performance management arrangements for the contract are good. There are however, a number of recommendations of a strategic nature that require addressing during the remaining term of the contract. This includes areas such as succession planning to ensure continued monitoring of the contract, development of a risk register, monitoring of client satisfaction and, in the longer term, future consideration of an exit strategy. All recommendations have been accepted and an action plan established to inform developments through 2013.
Level 2 Reports :		
Blue Badge procedures (Transformation and Resources) / (Transformation and Resources)	Medium (GREEN) (21/12/12)	Overall, adequate standards of control are in place resulting in a Medium Level of Assurance. Areas for development include the need to improve independent checking processes in respect of the application procedure and also the monitoring of income from the issue of the blue badges. All recommendations have been accepted.
Foster care payments (Children and Young People) / (Supporting Children and Families)	Medium (GREEN) (13/12/12)	Overall, audit testing confirmed that payments to foster carers are accurate, timely and paid in accordance with the approved allowance rates. There is appropriate segregation of duties between awarding of allowances, administration and payment of claims. Recommendations made included ensuring adequate audit trails are in place in some areas, particularly in respect of additional discretionary payments. All recommendations have been accepted with planned implementation in early 2013.
Level 1 Reports :		
Urmston Junior School (CYPS) / (Education)	Medium (GREEN) (17/10/12)	Audit testing revealed a satisfactory level of compliance with the controls covering most business risks. Areas for improvement included in the action plan include ensuring there is sufficient monitoring to ensure that bank accounts never go overdrawn (occurrence identified but subsequent bank charges were reversed) and ensuring there is a full audit trail in respect of income collection and banking processes.
DRAFT REPORTS		
Level 4 Reports :		
Trafford Partnership (Transformation and Resources) / (Authority- wide)	Medium (GREEN) (15/11/12)	The purpose of this review was to evaluate the effectiveness of controls in relation to the strategic partnership governance arrangements. The partnership had commissioned CIPFA to undertake a review of the partnership support arrangements during 2010 with an Improvement Plan subsequently agreed. The partnership can demonstrate significant progress in addressing the improvements, enabled through the restructuring of partnership support and streamlined governance arrangements.

		Areas highlighted in the review for further development included further development of protocols and processes in relation to the co-ordination of a formal risk management approach, information and data sharing protocols and awareness in respect of codes of conduct.
Complaints Processes (Authority wide) / (Supporting Children and Families; Education; Economic Growth and Prosperity; Highways and Environment)	N/A (GREEN) (20/11/12)	A formal audit opinion was not given as the review consisted of a follow up of review work originally carried out by the Partnerships and Performance Service of complaints processes for four service areas. Four follow up audit reports were issued and in each case the overall conclusions were that the majority of previous recommendations had been implemented or work was underway to implement them.
Works Management System (Authority wide & Environment, Transport and Operations) / (Highways and Environment; Finance; Transformation and Resources)	Medium * (GREEN) (19/11/12)	Some progress has been made in implementing previous audit recommendations. Improvements to budget monitoring and reconciliation processes to the Council's accounting system were noted. An action plan to address any outstanding recommendations is being agreed with the Environment, Transport and Operations Directorate before a final report is issued in 2013. Once the report is finalised, details will be included in a future update.
Level 3 Reports :		
Fuel Cards (Environment, Transport and Operations) / (Highways and Environment).	Medium * (GREEN) (15/11/12)	The review included a follow up of previous recommendations made in 2011/12 and it was noted that some progress has been made implementing improvements. A number of officers have been designated as responsible for card management and monitoring duties. Further development is required to ensure adequate guidance is available to assist monitoring arrangements and adequate monitoring of the use of individual fuel cards is taking place including the regular use of exception reports to assist with this.
Level 2 Reports :		
Libraries - Central ordering processes follow up review (Transformation and Resources) / (Transformation and Resources)	Medium / High * (Green) (19/12/12)	A medium level of assurance was given in the previous audit review and the follow up audit has resulted in medium/high level of assurance being given this year. Good progress has been made in implementing the previous recommendations made such as in respect of ordering and stock control and performance monitoring.
Level 1 Reports :		
St. Alphonsus RC Primary School (CYPS) / (Education)	Medium / High (GREEN) (4/12/12)	In most areas reviewed, the audit review identified good practice with effective procedures in place. Record keeping is of a high standard, providing clear audit trails. Agreed areas for development are to be included in an action plan within the final report to be issued in quarter four of 2012/13.

** This is a revised opinion given following a review of progress made in implementing recommendations made in the previous audit review. This opinion is based only on the areas tested and assumes the controls reviewed as part of the previous audit, that were not covered as part of this follow up audit, have been maintained.*

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 and input to working groups; 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 activities, other work undertaken during Q3 included:

- Facilitating the submission of data to the Audit Commission in October 2012 to support the 2012/13 National Fraud Initiative data matching exercise.
- Producing the revised Anti-Fraud and Corruption Policy, Strategy and supporting guidance documents (presented to the November 2012 Accounts and Audit Committee).
- Issue of guidance on gifts and hospitality to managers and staff in December 2012.
- Issue of guidance to schools (via the schools e-bulletin recently established by CYPS) re accepted levels of hospitality provided at schools to ensure schools compliance with national standards on propriety. In the same bulletin a copy of Audit Commission guidance for governors on fraud risks in schools (originally published in 2011) was also circulated.

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 reports issued during the quarter:

- **98% of all recommendations made (47 out of 48) have been accepted. In the year to date 94% (180 out of 192) of recommendations have been accepted against a Service annual target of 95%.**

Implementation of audit recommendations

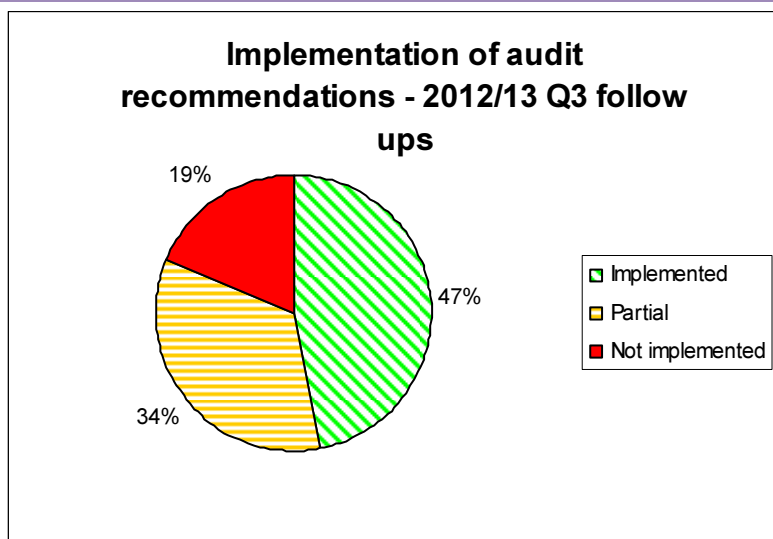
Final audit reports are followed up to assess progress in implementing improvement actions identified through audit recommendations. Recommendations made by the Audit and Assurance Service are followed up by a number of means. These include:

- 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.
- Through reviews undertaken on an annual or cyclical basis e.g. fundamental systems reviews, assessing progress in terms of ongoing improvements in controls.

Draft reports from three follow up reviews were issued in the quarter (Fuel Cards, Libraries Central Ordering and the Works Management system). **In previous audit reviews, all three areas were allocated a Medium opinion. In all instances this has improved or at least maintained.** An analysis of progress made in implementing the recommendations is shown in Chart 3.

(It should be noted that for audit reports issued in the previous year where a Low or Low/Medium opinion was given, work is currently in progress in conducting follow up work and this will be reported in the 2012/13 Annual Internal Audit Report).

Chart 3 – Follow Up Audits (Quarter 3) : Recommendation Implementation Analysis of % of Recommendations Implemented



Of the 32 recommendations made across the three reviews, 47% have been fully implemented with 19% yet to be implemented. The remaining 34% are either in progress, alternative controls established or are no longer applicable.

Further details are as follows:

- **Works Management review:** 6 out of 15 recommendations implemented and a further 6 in progress or N/A and 3 yet to be implemented.
- **Fuel Cards :** 5 out of 10 recommendations implemented and a further 3 in progress or N/A and 2 yet to be implemented.
(For the above two audit reviews, opinions of Medium were maintained. As part of the 2013/14 Audit Plan, further review work will be carried out as part of annual reviews of significant systems).
- **Libraries Central Ordering :** 4 out of 7 recommendations implemented, 2 in progress or N/A and 1 yet to be implemented. For the Libraries review, the opinion has improved from Medium to Medium High since the previous audit.

8. Performance against Audit & Assurance Annual Work Plan

Appendix A shows an analysis of time spent to date against planned time for the 2012/13 Operational Internal Audit Plan

As at the end of quarter three, 996 audit days were spent to date (against profiled planned time of 1015 days). The small difference is largely accounted for by annual leave taken given the closure over the Christmas period.

As previously reported, a Principal Audit and Assurance Officer left the Council in June 2012 and the vacancy was not filled. There are currently no plans to make any significant revision to the 2012/13 Internal Audit Plan, providing that the loss of available audit days can be met from the contingency. All planned review work detailed in the Plan reported to the Accounts and Audit Committee in March 2012 is being progressed or still planned to commence in the final quarter of 2012/13. Given the contingency in the Plan has been utilised, however, in the event there are any areas of work which do not commence as planned in the current year and instead are carried forward to commence in 2013/14, this will be highlighted in the 2012/13 Annual Internal Audit Report.

Client satisfaction surveys (April to December 2012)

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. A summary of feedback received is shown below.

QUESTION	V.GOOD	GOOD	SATISFACTORY	ADEQUATE	POOR	% v.good - good
1. Consultation on audit process and audit coverage prior to commencement of the audit	4	4				100%
2. Feedback of findings and liaison during the audit	4	4				100%
3. Professionalism of auditors	4	4				100%
4. Helpfulness of auditors	4	4				100%
5. Timeliness of the review and the draft report	2	5	1			87.5%
6. Clarity of the report	3	5				100%
7. Accuracy of the report	3	5				100%
8. Practicality of the recommendations made	2	5				100%
9. Usefulness of the audit as an aid to management	3	4				100%
Total	29	40	1			98.5%

9. Planned Work for Quarter 4 2012/13

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

- Ongoing work and issue of draft audit reports in respect of a number of areas including audits of the HR/Payroll system audit (completed in quarter three), ICT audit review of arrangements for the new data centre, Section 106 Planning Agreements, Let Estates, Pest Control, Sale Library and a number of follow up audits including schools.
- Issue of final audit reports including audits of service complaints processes, business continuity and the Trafford Partnership.
- Commencement of a number of audit reviews including Legal Debt Recovery, Corporate Health and Safety, Carrington weighbridge follow up review, CYPS Section 75 partnership agreement and a number of school and establishment audits.
- Presenting the proposed updated Risk Management Policy and Strategy to CMT and the Accounts and Audit Committee.
- Agreeing the approach / timetable for producing the 2012/13 Annual Governance Statement.
- Facilitate the update of the strategic risk register to be reported in March.
- Report on ongoing work in March 2013 in respect of the Anti-Fraud and Corruption Strategy, including awareness raising work undertaken or planned and work to support the National Fraud Initiative.
- Produce the 2013/14 Internal Audit Plan for approval by CMT and the Accounts and Audit Committee in March.
- Conduct the annual self assessment of Internal Audit against standards set out in the CIPFA Code of Practice for Internal Audit in Local Government, and report to the Accounts and Audit Committee in March (in future years an assessment will be made against the Public Sector Internal Audit standards to be introduced from April 2013).

APPENDIX A

2012/13 Operational Plan: Planned against Actual Work (as at 31 December 2012)

<u>Category</u>	<u>Details</u>	<u>Planned Days 2012/13</u>	<u>Planned Days (up to 31/12/12)</u>	<u>Actual Days (as at 31/12/12)</u>
Fundamental Systems	Completion of 2011/12 fundamental systems reviews. Planning and commencement of 2012/13 fundamental systems reviews.	230	140	143
Governance	Corporate Governance Reviews. Collation of supporting evidence and production of the 2011/12 Annual Governance Statement Audit reviews of governance arrangements for the Council's significant partnerships.	140	90	84
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	30	18
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	135	137
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.	120	90	72
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.	120	90	89
Schools	School Audit reviews Support the Council in raising awareness with schools of the new DfE Schools Financial Value Standard (SFVS). Pupil Referral Unit follow up audits	190	120	136
Establishments	Reviewing governance and control arrangements across a range of establishments such as libraries, youth centres and children's' centres.	100	70	47
Assurance – Other Key Business Risks	Selected on the basis of risk from a number of sources including risk registers, senior managers' recommendations and internal audit risk assessments. This will include a number of reviews relating to each Directorate across the Council.	130	100	137

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.	120	90	89
Financial Appraisals	Financial Assessments of contractors and potential providers	80	60	44
TOTAL		1450 *	1015	996

*Note: There are 1595 planned available days in total but 145 days relate to contingency. A member of staff left the Service in June 2012 which will result in a reduction of approximately 120 available operational audit days. This will be met from the contingency.