

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 9 February 2016
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Audit and Assurance Report for the Period October to December 2015.

Summary

The purpose of the report is:

- **To provide a summary of the work of Audit and Assurance during the period October to December 2015.**
- **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 October to December 2015

Date: 9 February 2016

1. Purpose of Report

This report summarises the work of the Audit and Assurance Service between October and December 2015. 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 2015/16.

2. Planned Assurance Work

Key elements of the 2015/16 Work Plan include:

- Fundamental Financial Systems reviews.
- Annual corporate governance review work and completion of the Annual Governance Statement for 2014/15.
- Audits of Council partnership arrangements.
- Continued review of 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.
- Audit reviews of other areas of business risk.

3. Main areas of focus – Q3 2015/16

Work in this quarter included the following :

- Completion of a number of follow up audit reviews undertaken to assess progress in implementing previous recommendations made including reviews relating to the IT Data Centre, four schools and an audit of Section 17 Payments (1989 Children's Act),
- Completion of audits relating to Treasury Management, Cash Expenditure control and the Registration Service and continued progression of a number of other audits, including other financial systems, to be completed in Quarter four.
- Liaison with partners to share findings from audit reviews relating to the STAR Shared Procurement Service.
- Liaison with services to follow up data matches highlighted through the National Fraud Initiative.

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.

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:

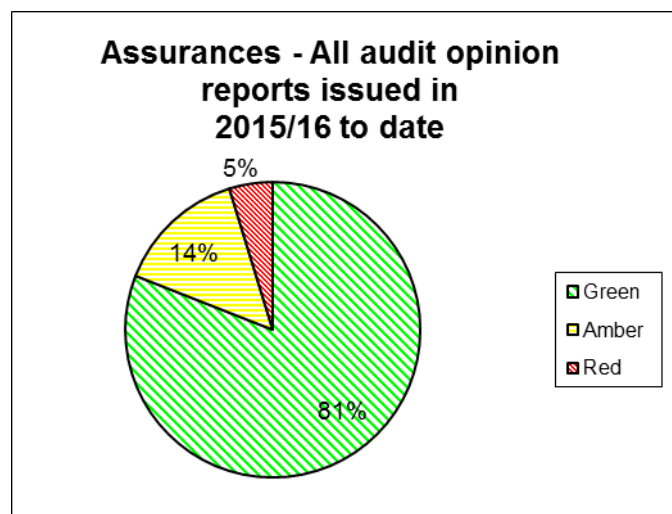
- **Level 4: Key strategic risk or significant corporate / authority wide issue** - Area under review directly relates to a strategic risk or a significant corporate / authority wide issue or area of activity.
- **Level 3: Directorate wide** - Area under review has a significant impact within a given 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.

4. Summary of Assurances

Year to Date:

All audit opinion reports issued in 2015/16 to date

(18 final reports and 3 draft reports issued April to December 2015)



Quarter 3 2015/16:

Eight final and three draft internal audit opinion reports were issued in quarter three. At least "Adequate" Opinions (Medium or above) were given in relation to all these reviews. In the year to date, 81% of opinions provided were Medium or above.

These include a number of follow up audit reviews where it is noted that a number of control improvements have been implemented reflecting the revised, improved opinion levels given (See Sections 5 and 7).

It should be noted, however, particularly where Medium opinions have been provided, that a number of areas for improvements in governance, risk management and internal control have been identified within individual reviews (as referred to in Section 5).

Of the final audit reports issued, two were produced by Stockport Council covering areas in relation to the STAR Shared Procurement Service. The reports were issued on behalf of Stockport, Trafford and Rochdale Councils, the scope and objectives of the reviews having been agreed by Audit in each of the Councils.

Other final reports issued included Treasury Management, Registration Service, Section 17 Payments (Children's Services) and three school follow up audit reviews. In the final reports issued, 97% of recommendations made were accepted by management (See section 7).

Draft reports were issued covering cash expenditure control, IT Data Centre and a further school follow up audit. A listing of audit report opinions issued including key findings is shown in Section 5.

A number of other areas of work were in progress during the quarter which will result in draft reports being issued in January to March 2016, as referred to in Section 10 which details areas of focus for the next quarter.

Work in the period also included input by Audit and Assurance to a number of other areas which are listed in Section 6.

5. Summary of Audit & Assurance Opinions Issued – Q3: 2015/16

| REPORT NAME (DIRECTORATE) / (PORTFOLIO) by Coverage Level (1-4) | -OPINION -R/A/G -Date Issued | COMMENTS |
|--|--|---|
| FINAL REPORTS | | |
| Level 4 Reports: | | |
| Treasury Management (T&R) / (Finance) | High (GREEN) (9/11/15) | A high level of assurance was given in last year's audit review and ongoing compliance with controls in place has resulted in a high level of assurance being maintained for this year. The results of audit testing concluded that no formal recommendations were required with only some minor issues highlighted in respect of levels of detail documented. |
| STAR Shared Procurement Service (T&R) / (Finance) | Moderate ** (GREEN) (13/11/15) | <p>The review was undertaken of the STAR Shared Procurement Service, which was established in February 2014. The review was led by Stockport Council Internal Audit on behalf of Stockport, Trafford and Rochdale Councils. The key objective of the audit was to review how effective the STAR Shared Procurement Service has been in achieving the primary objectives set out in the Business Case. The audit included reviewing a sample of procurement activities and their respective associated savings relating to 2014/15 and 2015/16.</p> <p>It was noted that the 2014/15 savings target for the STAR Service was £2.0m and the actual savings reported to the STAR Board and Joint Committee was £1.962m. It is acknowledged that significant progress has been made in developing the Service with clearly defined governance arrangements, including the establishment of the STAR Board and STAR Joint Committee with clearly defined terms of reference and processes for decision making. Some recommendations were made regarding the benefits realisation framework including recommending improvements in processes for recording data on the savings register and processes for verifying data before it is reported to the STAR Joint Committee. As part of the agreed action plan it was noted that planned work by STAR included reviewing the format of the savings register.</p> |
| Contracts register (T&R and Authority Wide) / (Finance) | Moderate ** (GREEN) (13/11/15) | <p>The review was undertaken of the contracts register maintained by the STAR Shared Procurement Service. The review was led by Stockport Council Internal Audit on behalf of Stockport, Trafford and Rochdale Councils. Key objectives were to ensure that controls were in place to ensure the contracts register is complete, accurate and up to date with adequate supporting information held and roles and responsibilities for maintaining the register clearly defined.</p> <p>Findings were that whilst overall adequate arrangements were in place, it was acknowledged that work is ongoing to continue to improve processes for maintaining the register. The contracts register continues to be developed and over time gaps in information are being followed up. Recommendations made include adding further details within the register such as contact details for staff involved in commissioning new contracts; ensuring supporting documentation is filed in a consistent manner and services to regularly check contracts information held on the register. As part of the agreed action plan it was noted that planned work included reviewing the format and content of the register.</p> |
| Level 2 Reports : | | |
| Registration Service (T&R) / (Transformation and Resources) | Medium/High (GREEN) (3/12/15) | Overall, adequate and effective controls were in place in respect of risks reviewed as part of the audit of the Council's Registration Service. It was noted that control improvements implemented following the previous audit review had continued to be maintained. Recommendations made in this latest review included some improvements to security procedures both in relation to regular changing of keypad combinations to access secure areas and regular review of access rights to IT systems. |

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| Section 17 payments – Children Act 1989 (CFW) / (Children’s Services) | Medium * (GREEN) (16/12/15) | A number of control improvements have been introduced since the previous audit review covering the administering of Section 17 monies used to support children in need and their families (under the Children’s Act 1989). In addition to 11 previous recommendations previously implemented which was previously reported in October 2014, from the latest follow up audit review completed in 2015, a further 4 recommendations have been fully implemented and 1 in part. Five other recommendations remain to be fully implemented where progress has been made but there are still some improvements required in some service areas. In particular, it is important that there are adequate procedures across all areas to ensure the necessary approval is obtained and evidenced prior to making Section 17 payments. In addition, full reconciliations of the imprest accounts should take place on a regular basis to account for all monies held and spent. |
| <u>Level 1 Reports:</u> | | |
| St. Anne’s C of E Primary School (CFW) / (Children’s Services) | Medium * (GREEN) (1/12/15) | Good progress has been made in implementing previous audit recommendations (18 out of 23 agreed recommendations have been implemented and 1 in part). The audit opinion has been revised to Medium from a Low/Medium opinion provided at the last review. An agreed action plan has been established for implementing both the remaining and new recommendations. New recommendations are in respect of the need to update the school’s development plan and the other to formalise approval procedures for the disposal of assets. |
| St. Michael’s C of E Primary School (CFW) / (Children’s Services) | Medium * (GREEN) (7/12/15) | Good progress has been made in implementing previous audit recommendations (23 out of 34 agreed recommendations have either been implemented or are no longer applicable and 6 have been implemented in part). The audit opinion has been revised to Medium from a Low/Medium opinion provided at the last review. An agreed action plan has been established for implementing both the remaining and new recommendations. These included the need to review costs associated with lettings to ensure these are taken into account when reviewing charges. |
| Cloverlea Primary School (CFW) / (Children’s Services) | Medium * (GREEN) (7/12/15) | Good progress has been made in implementing previous audit recommendations. (26 out of 32 agreed recommendations have been implemented and 2 in part). The audit opinion has now been revised to Medium from a Low/Medium opinion provided at the last review. An agreed action plan has been established for implementing both the remaining and new recommendations. New recommendations are in respect of formalising approval procedures for the disposal of assets and to improve record keeping for elements of the School Fund to ensure there is an adequate analysis of income and expenditure across each main category of activity. |
| <u>DRAFT REPORTS</u> | | |
| Cash Expenditure Control (T&R and Authority Wide) / (Finance) | Medium (GREEN) (19/11/15) | An audit review was undertaken to assess the effectiveness of controls in relation to the management and operation of imprest accounts across the Council, used by a number of services and establishments for the purpose of expenditure via cash. The review particularly focussed on nine higher value accounts and findings were reported separately to respective managers. Overall, satisfactory arrangements were found to be in place but recommendations were made to ensure adequate arrangements are in place within individual services for carrying out internal checks of cash and records held. A guidance note was shared by Audit for distribution to services. A recommendation was made for the Council to continue to review accounts in place with a view to continuing to reduce cash held and where feasible use other means of payment. Spend via imprest accounts amounted to over £500k in 2014/15, with 65 imprest accounts in place at the time. The number of accounts has since reduced through the current year which will be reflected in the final audit report, together with an agreed action plan to address the recommendations made. Details will be reported in the 2015/16 Annual Internal Audit Report. |
| IT Data Centre (T&R) / (Transformation and | Medium * (GREEN) | The Council’s ICT infrastructure moved in to the basement of the Town Hall in May 2013. An audit was previously undertaken by Salford Audit Services of the |

| | | |
|--|--------------------------------------|---|
| Resources) | (22/12/15) | <p>Council's IT Data Centre to assess the physical security and environmental controls in place to protect the Council's core data and equipment. A follow up review was recently completed.</p> <p>Out of the 14 recommendations originally made, eight have been implemented, four recommendations have been reiterated and two have been partially met or are ongoing. It is acknowledged that work is currently underway in considering future options for ensuring adequate disaster recovery arrangements are in place. An action plan is in the process of being agreed in respect of outstanding recommendations from the review. Details will be reported in the 2015/16 Annual Internal Audit report.</p> |
| St. Ann's RC Primary School (CFW) / (Children's Services) | Medium * (GREEN) (3/11/15) | <p>Good progress has been made in implementing previous audit recommendations. (Based on the draft report issued, of the 26 overarching recommendations made, 11 recommendations have been fully/substantially implemented and 13 implemented in part). The audit opinion has now been revised to Medium from a Low/Medium opinion provided at the last review. The school are to complete an action plan to address any recommendations from this review. Details will be reported in the 2015/16 Annual Internal Audit report.</p> |

*Note: Audit relates to a follow up review of a previous audit, focussing on progress made in implementing previous recommendations made

**Note: Audits completed by Stockport Council on behalf of Stockport, Trafford and Rochdale Councils. A "Moderate Opinion" was provided which is equivalent to an opinion of at least "Medium" per the Trafford Council framework and the opinion is therefore shown as "Green".

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.

There has been ongoing work such as the provision of advice; conducting investigation work and co-ordinating the update of the Council's Strategic Risk Register.

In addition to the above, other significant work undertaken during Q3 included:

- Reviewing existing security arrangements in relation to the Trafford Town Hall post room and recommending revised arrangements in relation to room access which were agreed.
- Issuing a reminder notice and links to Council guidance via the Council's weekly update in relation to required conduct for Council staff in dealing with offers of gifts and hospitality.
- Further audit review work in relation to Sale Waterside Arts Centre following the issue of an internal audit report in August 2015. In addition to the original report, this has resulted in additional recommendations being made to improve controls in relation to the control and monitoring of bar stock which will be followed up further by Audit.
- Continued progression of work supporting the National Fraud Initiative, in liaison with other services, to be reported in March 2016.

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

Based on the 6 final audit opinion reports issued during the quarter by Trafford Audit and Assurance Service:

- **97% of recommendations have been accepted (38 out of 39 recommendations made).**

In the year to date, based on 16 final reports issued by Trafford Audit and Assurance Service from April to December 2015:

- **97% of recommendations have been accepted (121 out of 125 recommendations). The Service Annual Target is 95%.**

Implementation of Audit Recommendations

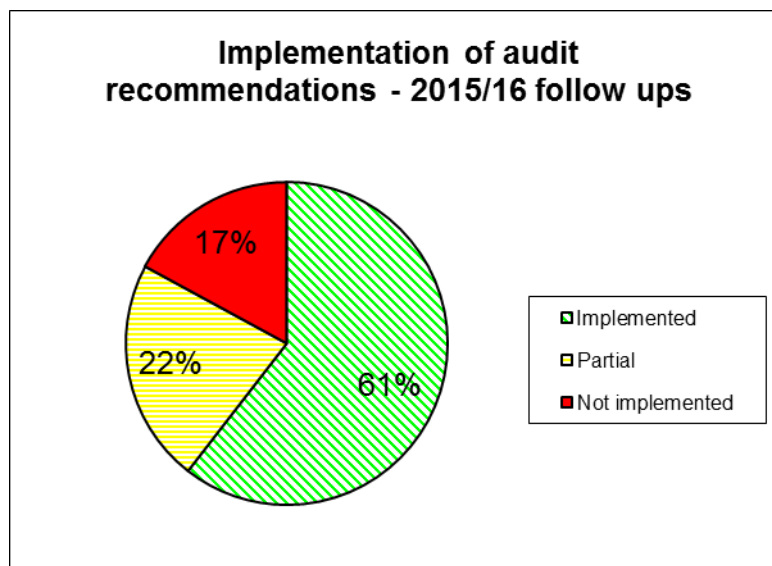
Final audit reports are followed up to assess progress in implementing improvement actions identified through audit recommendations. Recommendations made by the Audit and Assurance Service are followed up by a number of means including follow up audits, reviews conducted on a cyclical basis and managers' self-assessments.

Six follow up audit reports were issued during the quarter (IT Data Centre, Section 17 Payments, Four school follow up audits). Details of findings for each of the six reviews are referred to in Section 5.

Updates of progress in implementing previous audit recommendations were also received from two other schools:

- Kingsway Park Primary School reported that 10 of the 13 previous recommendations made had been implemented with one other currently in progress.
- Holy Family RC Primary School reported that 14 of the 16 previous recommendations made had been implemented.

Other follow up audits completed after December 2015 will be reported in the 2015/16 Annual Internal Audit Report. The chart below highlights the results of follow up work in the year to date with the majority of recommendations previously made having been implemented or in progress (83%).



8. Resources Update / Performance against Audit & Assurance Annual Work Plan

Appendix A shows an analysis of time spent to date against planned time for the 2015/16 Operational Internal Audit Plan

As at the end of quarter three, 628 audit days were spent to date against 650 planned days (97% of planned allocated time). The difference in days, including use of contingency, is accounted for by one Audit and Assurance Officer vacancy. Following a recent recruitment exercise, an appointment has been made and the officer will start in post in April 2016.

Meetings are to be held with Corporate Directors in February 2016 to discuss progress against planned work and agree future plans including the timing of any remaining work. Any amendments to the Plan or rescheduling of work will be reflected where applicable in the 2016/17 Internal Audit Plan (to be presented to the Accounts and Audit Committee in March) which will highlight any work carried forward from the previous year. In addition, the 2015/16 Annual Internal Audit Report will set out work completed during the year and any changes or rescheduling to planned work.

9. Client satisfaction surveys (April to December 2015)

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 or good |
|--|-----------|-----------|--------------|----------|------|------------------|
| 1. Consultation on audit process and audit coverage prior to commencement of the audit | 3 | 5 | | | | 100% |
| 2. Feedback of findings and liaison during the audit | 4 | 4 | | | | 100% |
| 3. Professionalism of auditors | 8 | | | | | 100% |
| 4. Helpfulness of auditors | 7 | 1 | | | | 100% |
| 5. Timeliness of the review and the draft report | 7 | 1 | | | | 100% |
| 6. Clarity of the report | 6 | 2 | | | | 100% |
| 7. Accuracy of the report | 4 | 3 | 1 | | | 87% |
| 8. Practicality of the recommendations made | 4 | 3 | 1 | | | 87% |
| 9. Usefulness of the audit as an aid to management | 5 | 3 | | | | 100% |
| Total | 48 | 22 | 2 | | | 97% |

| QUESTION | Very Significant | Significant | Moderate | Minor | None |
|--|------------------|-------------|----------|-------|------|
| 10. What level of improvement, in the standards of control and management of risks, do you expect to see following the audit review? | 1 | 4 | 2 | 1 | |

10. Planned Work for Quarter 4, 2015/16

Areas of focus will include :

- In January to March 2016, issue of a number of draft audit reports relating to different categories of audit that were in progress at the quarter end, including:
 - Financial system reviews (Payroll, Benefits, Cash control (Income), Council Tax);
 - Establishment Audit (Altrincham Crematorium follow up)
 - Contracts Audit (Advertising Contracts),
 - Service audit (Youth Service Barge Project).
 - IT Audits (Cyber Security Audit).
 - School Audits (Broomwood Primary School).
- Issue of final reports including management responses to recommendations made (IT Data Centre, Cash Expenditure Control and St. Ann's RC Primary School).
- Progression / commencement of a number of other audits including financial systems (Accounts Payable, Business Rates, Accounts Receivable and Debt Recovery, Insurance), school audits, other CFW Directorate audits (including Liquid Logic system, Client Finances and Personalised budgets) and Parking Enforcement Contract monitoring.
- Liaison with Corporate Directors to consider progress against the Audit Plan, timing of existing planned work and future areas for consideration.
- Issue of the 2016/17 Internal Audit Plan.
- Co-ordination of the Strategic Risk Register update (to be presented to the Accounts and Audit Committee in March 2016).
- Reporting on the outcomes of National Fraud Initiative work, completed in liaison with other services.
- Agreeing the planned work / timetable for compiling the 2015/16 Annual Governance Statement.

APPENDIX A

2015/16 Operational Plan: Planned against Actual Work (as at 31 December 2015)

| <u>Category</u> | <u>Details</u> | <u>Planned Days 2015/16</u> | <u>Planned Days (up to 31/12/15)</u> | <u>Actual Days (as at 31/12/15)</u> |
|--------------------------------------|--|-----------------------------|--------------------------------------|-------------------------------------|
| Fundamental Systems | Completion of fundamental financial systems reviews | 160 | 110 | 176 |
| Governance | Corporate / partnership governance review work and collation of supporting evidence and production of the 2014/15 Annual Governance Statement (AGS). Preparation for production of the 2015/16 AGS. | 60 | 45 | 19 |
| Corporate Risk Management | Facilitating the updating of the Council's strategic risk register and other actions to support the Council's Risk Management Strategy. | 25 | 17 | 16 |
| Anti-Fraud and Corruption | Investigation of referred cases. Work in co-ordinating the reporting of the Council's NFI data matching exercise. 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. | 140 | 105 | 89 |
| 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. (This will include liaison with the STaR Procurement Service and partner authority auditors). | 50 | 30 | 21 |
| ICT Audit | Audit reviews to be completed in line with the ICT audit plan. Investigation of misuse of ICT. | 60 | 45 | 38 |
| Schools | School Audit reviews Support the Council in raising awareness with schools of the DfE Schools Financial Value Standard (SFVS). | 120 | 83 | 69 |
| 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 services, establishments and functions. | 155 | 110 | 110 |
| Grant claims checks / Data Quality | Internal audit checks of grant claims / statutory returns as required. This includes verification checks of data submitted by the Council as part of its Stronger Families programme. | 30 | 22 | 18 |
| Service Advice / Projects | General advice across all services. Support and advice to the organisation in | 80 | 60 | 62 |

| | | | | |
|-----------------------------|--|--------------|------------|------------|
| | carrying out key projects ensuring new systems, functions and procedures provide for adequate controls and good governance arrangements. | | | |
| Financial Appraisals | Financial assessments of contractors and potential providers | 30 | 23 | 10 |
| | | | | |
| TOTAL | | 910 * | 650 | 628 |

*Note: There are 960 planned available days in total but 50 days relate to contingency (The contingency days have been accounted for by a vacant post which is in the process of being filled).