

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 19 November 2014
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Audit and Assurance Report for the Period July to September 2014.

Summary

The purpose of the report is:

- **To provide a summary of the work of Audit and Assurance during the period July to September 2014.**
- **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 2014

Date: 19 November 2014

1. Purpose of Report

This report summarises the work of the Audit and Assurance Service between July and September 2014. 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 2014/15.

2. Planned Assurance Work

- Key elements of the 2014/15 Work Plan include:
- Fundamental Financial Systems reviews.
 - Annual corporate governance review work and completion of the Annual Governance Statement for 2013/14.
 - 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, 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 2014/15

- Work in this quarter covered a number of the main themes listed above including :
- Input to the corporate review of budget monitoring arrangements;
 - Completion of the 2013/14 Annual Governance Statement;
 - Fundamental financial system reviews;
 - Undertaking a number of follow up audit reviews, focussing on areas for improvement identified in previous audits.

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 |

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.

Summary of Assurances for 2nd Quarter 2014/15

Q2 – 2014/15

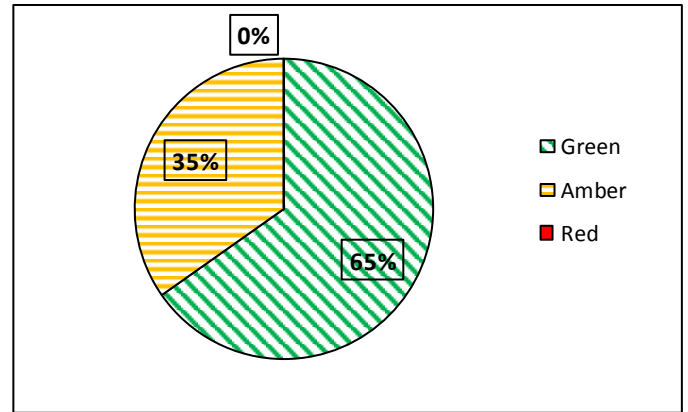
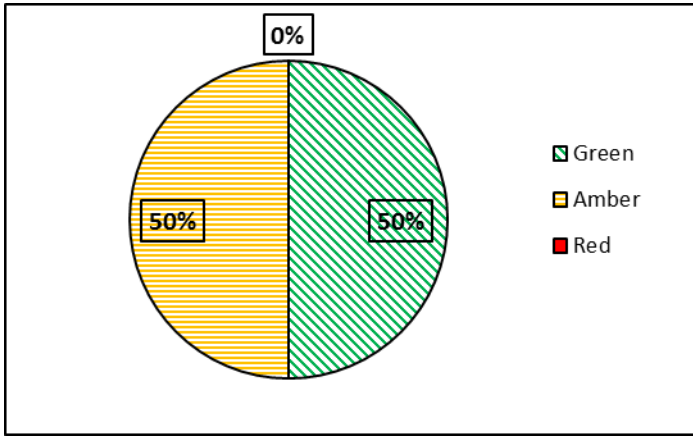
Chart 1 :

Assurances – all audit opinion reports issued in Quarter Two 2014/15 (16 reports – 8 final and 8 draft)

2014/15 to date

Chart 2 :

Assurances – all audit opinion reports issued in 2014/15 to date (23 reports – 14 final and 9 draft)



4. Overall Conclusions

Sixteen audit reports were issued in the quarter, eight final reports and eight at draft stage. Whilst a number of reviews were completed where at least an “Adequate” audit opinion was provided, there were a significant number of areas where less than “Adequate” opinions were given.

Eight “Low/Medium” opinion reports were issued during the period. Of these:

- Three reviews related to follow ups of audits undertaken in previous years where a less than adequate audit opinion had previously been given (Section 17 Payments (Children’s Act 1989) and two school reviews).

For each of the above reviews, progress had been made in implementing previous audit recommendations but further progress was still required prior to a “Green” opinion being considered.

- Low/Medium opinions were also given in respect of the following five areas and details relating to these are shown in Section 5 (Taxi Licensing; Schools ICT Security and Governance review; Match day parking contract monitoring at one school and two other routine school audit reviews).

Further follow up of these areas will be included as part of future audit plans to assess implementation of recommendations made.

It is noted that in respect of the Section 106 review, significant progress had been made and the opinion per the draft report issued increased from a Low opinion issued in 2013 to a present opinion of Medium. The opinion level will be further reviewed at the next audit review.

Work in the period included continued input by Audit and Assurance to the corporate budget monitoring investigation. (The investigation report was shared with the Accounts and Audit Committee on 6 August 2014 and a subsequent Action Plan was shared with the Committee at its meeting on 25 September).

During the period, the Audit and Assurance Service also completed the process of supporting the production of the Council’s final 2013/14 Annual Governance Statement.

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

5. Summary of Audit & Assurance Opinions Issued – Q2: 2014/15

REPORT NAME (DIRECTORATE) / (PORTFOLIO) by	-OPINION -R/A/G -Date Issued	COMMENTS
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Coverage Level (1-4)		
<u>FINAL REPORTS</u>		
<u>Level 4 Reports:</u>		
Accounts Payable 2013/14 (T&R) / (Finance)	Medium (GREEN) (1/8/14)	The majority of central controls reviewed surrounding the accounts payable process have continued to be maintained. There are a number of developments being progressed to improve processes to ensure the EBP system is used effectively and efficiently across services.
Accounts Receivable and Debt Recovery 2013/14 (T&R) / (Finance)	High (GREEN) (23/9/14)	Key controls surrounding the Accounts Receivable and Debt Recovery process have continued to be maintained. The Revenues and Benefits Service are developing a plan to enhance existing processes through support to Services across the Council in respect of guidance and management information provided.
<u>Level 2 Reports :</u>		
Match day parking at Schools (CFW) / (Children's Services)	(3 x GREEN) (3 schools - 18/7/14)	Satisfactory controls were found to be in place relating to contract management arrangements, including the monitoring of income received from contractors, in respect of match day parking at three of the four schools reviewed - Victoria Park Junior School, Stretford High School and Gorse Hill Primary School. (See draft reports section in respect of the audit review of St. Ann's RC Primary School).
<u>Level 1 Reports :</u>		
St. Michael's C of E Primary School (CFW) / (Children's Services)	Low/Medium (AMBER) (21/8/14)	Recommendations have been made across a number of areas including the administration of lettings arrangements, collection and banking of income and the administration of the school fund. It is noted that the school has completed an action plan to address recommendations made. A follow up audit will take place in 2015/16.
Lostock College (CFW) / (Children's Services)	Medium (GREEN) (1/9/14)	Records were generally maintained to a good standard although a number of areas for control improvement were identified. These included recommendations relating to asset security and also in introducing a division of duties within certain processes including income collection and banking.
St. Anne's C of E Primary School (CFW) / (Children's Services)	(Low/Medium) (AMBER) (1/9/14)	The audit found some areas of good practice, but there is a need to improve controls for a number of areas to ensure associated risks are managed effectively. The remits of a number of Governing Body Committees need to be approved. A number of recommendations were made in relation to the administration of the School Fund. A follow up audit will take place in 2015/16.
<u>DRAFT REPORTS</u>		
<u>Level 4 Reports:</u>		
Section 106 Planning Agreements (EGEI & T&R) / (Economic Growth and Planning)	Medium (GREEN) (24/9/14) *	The majority of recommendations made in the previous review reported in October 2013 have been implemented and the opinion has been revised to "Medium" having previously been "Low". The draft report issued highlighted there was some further work required to implement a number of remaining recommendations. This included the need to increase activity in relation to undertaking site visits to monitor progress of relevant developments. Details of agreed areas for further improvement, together with the associated action plan and confirmed audit opinion will be reported as part of the final report and reported in the Quarter Three Audit and Assurance update.
Energy Management (EGEI) / (Economic Growth and Planning)	Medium (GREEN) (20/8/14)	The majority of controls surrounding the energy management function have been maintained to a satisfactory standard in the areas reviewed. Recommendations have been made to raise awareness and provide further guidance to ensure that staff can support Council objectives in reducing energy costs.
<u>Level 2 Reports:</u>		
Taxi licensing (EGEI) / (Environment and Operations)	Low/Medium (AMBER) (30/9/14)	An overall opinion of Low / Medium assurance is given reflecting the findings that, whilst a number of adequate procedures and controls are in place, a number of areas for improvement have been identified to reduce risks. This includes the need to ensure adequate checks and divisions of duties are in place in respect of processing

applications and administering income received and banked. Further work is required to ensure adequate documented procedural guidance is in place for license applications, renewals and inspections.

ICT Governance and Security in Schools (CFW & T&R) / (Children's Services & Transformation and Resources)	Low/Medium (AMBER) (17/7/14)	The review findings were based on reviews of five schools. The review found there are some effective controls in place to mitigate key risks; however, there are areas where the introduction of new controls or improvement to existing controls is required. These include required improvements identified at some schools in respect of system back up arrangements and in the secure transmission of data. Recommendations were made for the Council to consider in terms of the provision of guidance and support for schools to make improvements. (It is noted that an Information Governance service has recently been made available to schools by the Council to purchase a range of support).
Match day parking at Schools (CFW) / (Children's Services)	Low/Medium (1 x AMBER) (1 school - (12/8/14)	In respect of the review of contract management arrangements, including the monitoring of income received from contractors for match day parking at four schools reviewed, areas for improvement were identified at one school (St. Ann's RC Primary School). This related to the need to ensure prompt invoicing of amounts due from the contractor and ensuring clearly established arrangements are in place, agreed by the Governing Body, for approving any variations to the contract. A draft report has been issued to obtain a management response to the recommendations made.
Section 17 payments – Children Act 1989 (CFW) / (Children's Services)	Low/Medium (AMBER) (24/7/14) *	The objective of the review was to assess controls in place for the administration of Section 17 monies, used to support children in need and their families. It is noted that some progress has been made in implementing previous audit recommendations made. There are, however, a number of recommendations that remain outstanding. In particular, it is important that there are adequate procedures 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. (It is noted that since the end of the quarter, a management response has been received and an Action Plan agreed to address all recommendations made).

Level 1 Reports:

St. Hilda's C of E Primary School (CFW) / (Children's Services)	Low/Medium (AMBER) (29/8/14) *	It is noted that some progress has been made in implementing previous audit recommendations made. There are, however, a number of recommendations that remain outstanding. These include recommendations in relation to ordering and payment processes, and ensuring an adequate division of duties in respect of income collection and banking.
Oldfield Brow Primary School (CFW) / (Children's Services)	Low/Medium (AMBER) * (29/9/14)	It is noted that some progress has been made in implementing previous audit recommendations made. There are, however, a number of recommendations that remain outstanding. These include recommendations in relation to purchasing including retaining evidence of quotes to demonstrate value for money and ensuring an adequate division of duties in the ordering, delivery and payment process.

*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.

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; 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:

- Input by the Audit and Assurance Service to the corporate review of budget monitoring arrangements (reported in separate updates to the Accounts and Audit Committee).
- Co-ordinating the production of the Council's 2013/14 Annual Governance Statement, approved by the Accounts and Audit Committee on 25 September 2014).
- Making preparations, through liaison with relevant services, for the submission of data as part of the 2014/15 National Fraud Initiative.
- Internal Audit checks of Highways Maintenance Grant claims in accordance with Department for Transport requirements.

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 8 final audit opinion reports issued during the quarter:

- **92% of all recommendations made (82 out of 89) have been accepted.**

In the year to date:

- **93% of all recommendations have been accepted (compared to 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.

As described in Section 5, a number of follow up audit reports have been issued in the quarter (Section 106 Planning Agreements; Section 17 payments – Children's Act 1989; Oldfield Brow Primary School and St. Hilda's C of E Primary School). A self- assessment follow up review was also completed in relation to two other previous audits (Blue Badges and Ascot House Assessment Centre).

In total, out of 86 recommendations followed up above, 47 were identified as implemented or no longer applicable (55%), 9 implemented in part or in progress (10%) and 30 had yet to be implemented (35%). It is acknowledged that progress in implementing recommendations has been made for all areas reviewed. For all areas followed up where a number of recommendations are yet to be implemented (2 schools and Section 17 payments review) a further assessment of progress will be made in 2015/16. Further follow up work will also be completed in 2015/16 of progress in relation to the Section 106 review, particularly in relation to areas where it was found that progress has been made in part to implement certain recommendations.

It is planned that for any remaining areas where a Low/Medium final audit report was issued in 2013/14 (as per the Annual Internal Audit Report), follow up work will be commenced in quarter three or four.

8. Performance against Audit & Assurance Annual Work Plan

Appendix A shows an analysis of time spent to date against planned time for the 2014/15 Operational Internal Audit Plan

As at the end of quarter two, 562 audit days were spent to date (96% of profiled planned time of 587 days).

There are variations between planned and actual time taken against particular categories of work. It is expected that where time is significantly less than planned for given areas, there will be increased activity in quarters three and / or four.

Given the departure of a Senior Audit and Assurance Officer in September 2014, resources available against work planned for the year are currently under review with the objective of ensuring key priorities are completed. In the event of any proposed rescheduling of planned work, this will be considered in consultation with relevant Corporate Directors and the Accounts and Audit Committee will be advised in subsequent updates.

9. Planned Work for Quarter 3, 2014/15

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

- Submission of required data as part of the 2014/15 Audit Commission Data Matching exercise.
- Contribute to the corporate process of monitoring the Budget Monitoring Investigation Action Plan.
- Issue of further financial system audit reports and progression / completion of a number of other audits across the audit plan.
- Co-ordination of the Strategic Risk Register update (to be presented to the Accounts and Audit Committee in November 2014).

APPENDIX A

2014/15 Operational Plan: Planned against Actual Work (as at 30 September 2014)

<u>Category</u>	<u>Details</u>	<u>Planned Days 2014/15</u>	<u>Planned Days (up to 30/9/14)</u>	<u>Actual Days (as at 30/9/14)</u>
Fundamental Systems	Completion of annual (2013/14) fundamental systems reviews and other system reviews. Planning of 2014/15 fundamental systems reviews.	230	140	150
Governance	Corporate Governance Review work and collation of other supporting evidence for the production of the 2013/14 Annual Governance Statement Audit reviews of governance arrangements for the Council's significant partnerships.	80	49	21
Corporate Risk Management	Facilitating the updating of the Council's strategic risk register and other actions to support the Council's Risk Management Strategy	30	15	5
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	45
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.	70	25	22
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.	90	45	36
Schools	School Audit reviews Support the Council in raising awareness with schools of the DfE Schools Financial Value Standard (SFVS).	170	55	89
Establishments	Reviewing governance and control arrangements across a range of establishments.	70	40	9
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.	170	65	107
Service Advice / Projects	General advice across all services. Support and advice to the organisation in carrying out key projects ensuring new	100	50	38

	systems, functions and procedures provide for adequate controls and good governance arrangements.			
Financial Appraisals	Financial assessments of contractors and potential providers	35	18	40
TOTAL		1225 *	587	562

*Note: There are 1325 planned available days in total but 100 days relate to contingency. This will be used to address the loss of available audit days following the departure of a Senior Audit and Assurance Officer in September 2014.