

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 24 September 2015
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Audit and Assurance Report for the Period April to June 2015.

Summary

The purpose of the report is:

- **To provide a summary of the work of Audit and Assurance during the period April to June 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 April to June 2015

Date: 24 September 2015

1. Purpose of Report

This report summarises the work of the Audit and Assurance Service between April and June 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 – Q1 2015/16

Work in this quarter included the following :

- Issue of a number of final audit reports incorporating management responses to draft audit reports.
- Progression of a number of fundamental financial system reviews and other reviews including a report issued on Let Estates and progression of a number of reviews to be reported in Quarter two. (Work in progress in quarter one included reviews relating to Income Control, Payroll, Planning Control, Sale Waterside Arts Centre and Business Continuity).
- Work in compiling the Draft Annual Governance Statement.
- Input to the monitoring of the Budget Monitoring Action Plan.

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 for 1st Quarter 2015/16

Five internal audit opinion reports were issued in the quarter, four final reports and one at draft stage.

Work was in progress in relation to six other audits in the period which will result in an audit opinion and these are listed at the end of Section 5 (details of findings from these reviews will be

<p>At least "Adequate" Opinions (Medium or above) were given in relation to three of the reviews (Works Management system and two establishment audits- Pathways Day Centre and Seymour Park Community Primary School).</p> <p>Less than adequate opinions were given in relation to Let Estates (Low Opinion) and Schools Catering (Low/Medium). Audit follow up reviews will be planned to assess progress in implementing audit recommendations made.</p> <p>(A listing of audit report opinions issued including key findings is shown in Section 5).</p>	<p>included in the Quarter Two Audit and Assurance update).</p> <p>Work in the period included continued input by Audit and Assurance to a number of other areas, including ongoing monitoring of the budget monitoring investigation action plan. (These are referred to in Section 6).</p> <p>The Audit and Assurance Service undertook a recruitment exercise during the quarter and appointed two audit staff who will be starting work in August and September 2015 respectively. One vacancy remains at the time of this update report and a recruitment exercise is currently in progress.</p>
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5. Summary of Audit & Assurance Opinions Issued – Q1: 2015/16

REPORT NAME (DIRECTORATE) / (PORTFOLIO) by Coverage Level (1-4)	-OPINION -R/A/G -Date Issued	COMMENTS
FINAL REPORTS		
Level 4 Reports:		
Works Management System (EGEI/ Environment and Operations)	Medium (GREEN) (8/6/15)	The Works Management System (WMS) was a key system used by a number of departments to request, record and charge for works undertaken. At the time of the review, given the introduction of the Joint Venture arrangement the scope of the audit focussed on gaining assurance on the adequacy of information feeding in to the financial ledger through review of a sample of transactions, to ensure appropriate information was recorded on the WMS with consistent supporting information as an audit trail. The majority of transactions selected and sampled for this review were found to have sufficient supporting evidence available directly from interrogation of the WMS. However, a small number of works orders required examination of archived paper records in order to review the associated inputs and outputs. This prompted a recommendation to be made to be considered in light of the introduction of the Joint Venture with the aim that monitoring by the Council as the client is undertaken through ready access to systems without recourse to paper records or other archived material. In response to this recommendation, Audit was advised that the ability to have such access has been included in the contract specification.
Level 2 Reports :		
School Catering (EGEI) / Environment and Operations)	Low/Medium (AMBER) (17/6/15)	The review covered processes operated by the Schools Catering Service, including monitoring of expenditure, income and stocks. A number of recommendations were made to improve existing controls including : <ul style="list-style-type: none"> • Retaining evidence of regular reconciliation of income received to supporting records, including till receipts to ensure funds are fully accounted for. • The monitoring of invoices raised to schools to ensure payments are received promptly. • Considering the usage of available information to monitor and control direct costs, primarily food costs. A follow up review will be undertaken in 2016/17 to consider progress in implementing the recommendations made.
Level 1 Reports :		
Pathways Day Centre (CFW) / (Adult Social	Medium/High (GREEN)	An audit of the Pathways Day Centre was completed. Overall, adequate and effective controls were found to be in place for most areas reviewed. A small number of

Services and Community Wellbeing	(12/6/15)	recommendations were made. These included the need to ensure an up to date business continuity plan was in place. All recommendations made were agreed by the Service.
Seymour Park Community Primary School (CFW) / (Children's Services)	Medium (GREEN) (18/6/15)	Overall governance arrangements and the systems and controls for financial planning, budgetary control and income and banking were found to be effective. In respect of payroll arrangements, the school needs to ensure that all payments to staff are made through the payroll system to ensure the appropriate statutory deductions are made. A number of incorrect payments to staff had been made by the school relating to services provided to other schools. These have been identified and the Council's Payroll Section is working with the school to ensure the correct deductions are made.

DRAFT REPORTS

Level 4 Reports:

Let Estates (EGEI) / (Economic Growth and Planning)	LOW (RED) (9/6/15)	Let Estates has been subject to regular audits as a key financial system and a review was completed prior to the Joint Venture arrangement being implemented. Let estates income is generated from a number of properties across the Borough, with annual income received of over £2m. Audit testing found that property records were not up to date and a significant number of updates to the property database were required. Since the review work was undertaken, the Let Estates function is now managed by Amey as part of the Joint Venture. Audit has been advised that Amey are to compile a Technical Services Plan by January 2016. This will include an agreed approach to ensure records are brought up to date which will be agreed with client officers from the Council. (The final report has since been issued in quarter two with an agreed action plan and Audit and Assurance will follow up the findings from the review and progress with the Action Plan in 2016).
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Other Audits in Progress at the end of Quarter One 2015/16

It should be noted that a number of other audits were also in progress in quarter one and draft/final reports from these reviews will be issued in Quarters 2 and 3. These relate to the following:

- Planning Control (since issued as a draft report in July 2015- Medium /High Opinion).
- Income Control (issued as a draft report in August 2015 - Medium/High Opinion).
- Business Continuity follow up audit (issued as a final report in July 2015 - Low/Medium Opinion).
- Sale Waterside Arts Centre (issued as a final report in August 2015 - Medium Opinion)
- Springfield Primary School follow up audit (issued as a final report in August 2015 – Low/Medium Opinion).
- Payroll system audit (in progress)

Details for the above reports will be reflected in the 2015/16 Quarter Two update report.

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 significant work undertaken during Q1 included:

- Facilitating the production of the 2014/5 Draft Annual Governance Statement.
- Input to ongoing discussions between the STaR Shared Procurement Service and Finance and audit staff in Rochdale and Stockport Councils in respect of reviewing existing procedures for the financial vetting of contractors.
- Ongoing input by the Audit and Assurance Service to the monitoring of the Budget Monitoring Action Plan following the corporate review in 2014/15.

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 4 final audit opinion reports issued during the quarter:

- **92% of all recommendations made in the Quarter (34 out of 37) 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.

It is planned that a number of follow up reviews of reports issued in 2014/15 will be completed as indicated in the Internal Audit Plan. These are due to be undertaken between July 2015 and March 2016 and reported on in future quarterly updates.

8. 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 one, 160 audit days were spent to date against 200 planned days. Available Internal Audit resources were less than originally planned for at the start of 2015/16. During the quarter the Service was in the process of recruiting to fill vacancies. An appointment has since been made to the post of Senior Audit and Assurance Officer (the officer commenced in post on 5 August 2015). Another appointment has been made to the post of Audit and Assurance Officer (the officer is due to commence on 7 September 2015). There is one remaining vacancy at Audit and Assurance Officer level which has recently been re-advertised.

A further update on staffing resources will be included in the Quarter Two update. At present, all areas included within the agreed 2015/16 Audit Plan remain and in the event any rescheduling of work is required, this will be advised in further updates.

9. Planned Work for Quarter 2, 2015/16

Areas of focus will include :

- Issue of further financial system audit reports and progression / completion of a number of other audits across the audit plan including Business Continuity, Income Control, Planning Control, Payroll, Let Estates and Sale Waterside Arts Centre.
- Commencement of a number of reviews relating to cash control, initially covering services / establishments across the Council maintaining the highest levels of petty cash.
- Commencement of other financial system reviews including Benefits and Accounts Payable towards the end of the quarter.
- Continue to contribute to the corporate process of monitoring the Budget Monitoring Investigation Action Plan.
- Facilitate the production of the finalised version of the 2014/15 Annual Governance Statement.

- Co-ordination of the Strategic Risk Register update (to be presented to the Accounts and Audit Committee in September 2015).
- Internal Audit checks of a number of grant claims expected to be required to be completed during the quarter.

APPENDIX A

2015/16 Operational Plan: Planned against Actual Work (as at 30 June 2015)

<u>Category</u>	<u>Details</u>	<u>Planned Days 2015/16</u>	<u>Planned Days (up to 30/6/15)</u>	<u>Actual Days (as at 30/6/15)</u>
Fundamental Systems	Completion of fundamental financial systems reviews	160	40	40
Governance	Corporate Governance Review / Collation of supporting evidence and production of the 2014/15 Annual Governance Statement. Reviews of governance arrangements for the Council's significant partnerships.	60	20	16
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	5	4
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	35	15
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	5	3
ICT Audit	Audit reviews to be completed in line with the ICT audit plan. Investigation of misuse of ICT.	60	12	11
Schools	School Audit reviews Support the Council in raising awareness with schools of the DfE Schools Financial Value Standard (SFVS).	120	20	16
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	30	36
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	5	3
Service Advice / Projects	General advice across all services. Support and advice to the organisation in	80	20	12

	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	8	4
TOTAL		910 *	200	160

*Note: There are 960 planned available days in total but 50 days relate to contingency.