

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 26th JANUARY 2016

2015/16 INTERNAL AUDIT QUARTERS 2 AND 3 UPDATE REPORT UPDATE OF THE INTERNAL AUDIT CHARTER FOR 2016/17 EXTERNAL ASSESSMENT IN RESPECT TO THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

**REPORT OF THE INTERNAL AUDIT, INFORMATION GOVERNANCE & INSURANCE SERVICES
SERVICE DELIVERY MANAGER**

1 PURPOSE

- 1.1 To update members on the work of Internal Audit during quarters two and three – July to December 2015.
- 1.2 For members to approve the updated Internal Audit Charter for 2016/17
- 1.3 For members to agree the process for external assessment against the Public Sector Internal Audit Standards (PSIAS).

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the Internal Audit update information for quarters 2 and 3 2015/16.
- 2.2 That members approve the 2016/17 Internal Audit Charter attached as Appendix E.
- 2.3 That members agree the procurement route for an external assessment of Internal Audit against the PSIAS as set out in section 7 with final details to be agreed by the Internal Audit, Information Governance & Insurance SDM in consultation with the Chair of the Audit Committee and CFO.

3 SUMMARY

- 3.1 The terms of reference of the Audit Committee include:
“The approval (but not direction) of and monitoring of progress against, the Internal Audit Charter and Plan”. The Audit Committee receives regular updates on the work of Internal Audit. This report provides the updates for quarters two and three 2015/16 – July to December 2015 and an update of the Internal Audit Charter for 2016/17.
- 3.2 The Public Sector Internal Audit Standards effective from 1st April 2013 contain the requirement for an external assessment of the Internal Audit function once every 5 years. The Council needs to ensure one has been undertaken by 31st March 2018. As there is a restructure of Finance & Human Resources scheduled for 2017/18 and it is envisaged that there may be a high demand for external assessments during 2017/18 it seems prudent to undertake the process during 2016/17. This report sets out in section 7 the background and proposed options alongside their associated opportunities, risks and costs.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 30th June 2014 – Internal Audit & Information Governance Annual Report 2013/14

Audit Committee 16th September 2014 – Internal Audit Quarter 1 Update 2014/15 and Public Sector Internal Audit Standards

Audit Committee 27th January 2015 – Internal Audit Quarters 2 and 3 Update 2014/15

Audit Committee 30th June 2015 – Internal Audit & Information Governance Annual Report 2014/15 and Internal Audit Quarter 4 Update

5 QUARTERS 2 and 3 INTERNAL AUDIT UPDATE INFORMATION

- 5.1 This report provides information on the work of Internal Audit from 1st July – 31st December 2015 and provides an update on the progress of previous audit reports issued (January 2013 to June 2015).
- 5.2 The key focus for the team during the first part of quarter two was the completion of audits commenced in quarter one. Following this for the rest of quarter two and all of quarter three we have completed audit work as set out in the 2015/16 plan. We have commenced all the fundamental systems audits and in some cases completed them as required by the external auditor to support their final accounts audit work. In July we also agreed the IT audit supplier for 2015/16 from the framework agreement following receipt and evaluation of quotes. Work commenced in September 2015 and should be completed by end February 2016.
- 5.3 The following internal audit update report appendices are attached:
- i) **Appendix A** – List of final reports issued in quarters two and three with our grading – red, amber, yellow or green. This report also includes budgeted time, actual time and percentage variance.
 - ii) **Appendix B** – List of all work undertaken for quarters two and three for a period of 1 day or more.
 - iii) **Appendix C** - Previous graded reports from January 2013 to June 2015 with their current status. (Members should note that once reports have reached a green status and have been reported to members they are excluded from future reports).
 - iv) **Appendix D** – Summary of the 9 amber reports issued in quarters two and three. Note in addition to these 9 amber reports the cash collection report was separated into corporate and 4 service area opinions. The service area opinion for cash collection – highways and transport was graded Amber.
- 5.4 Appendix A shows 27 reports were issued in quarters two and three, including the Cash collection report which was comprised of the 5 opinions as set out above 5.3 (iv). For the final reports issued the time taken for the areas shown in the table below varied from the allocated time by more than +/- 10%.

| Area | Variance (> +/- 10%) | Reason |
|--------------------------------------|------------------------------------|---|
| St Georges School | +14% | Head requested additional draft discussion meeting and new programme for lead Auditor |
| ASC prototype | -84% | Limited information available so agreed that a full audit to take place in 2016/17. |
| Treasury Management | +16% | Scope and working papers reviewed so new areas included. |
| Setting up home (leaving care grant) | -62% | Processes not in place so limited testing could be undertaken. |
| ASS Financial Assessment Review | +22% | Complex area and additional testing added during the audit. Training for new auditor. |
| Transport (Adults) | +150% | New area so working papers had to be developed. Due to service set up no one focal point/contact that took responsibility for audit area so some duplication and therefore wasted time. |

| Area | Variance (> +/- 10%) | Reason |
|---|-------------------------|---|
| Leaving care – review of process | +14% | New area so working papers had to be developed. Auditees had to be chased and therefore added to time as had to be reminded of requirements. |
| Windmill Primary School | +11% | New programme for Lead Auditor. |
| Wrockwardine Wood Junior School | +22% | Head leaving so extra time spent providing advice on handover requirements. |
| Horsehay Golf Centre | +31% | Although the leisure audit programme was used scope was larger due to café and review of the golf professional. |
| Cash Collection | +14% | Corporate and 4 service areas reviewed therefore testing more extensive than planned. |
| Facilities Management Help Desk | +36% | New auditor so additional support required in addition to testing required in two service areas. |
| Car Parking & Enforcement (excluding Multi Storey Car park) | +106% | Reviewed 4 car parks rather than just the one originally envisaged. |
| Adult Social Care Payments | +37% | Extensive testing due to complex payment processes and restructures in other services affected interfaces and required additional testing. Parts of the Abacus system also included. |
| Donnington Wood Junior | +14% | Additional preparation and review time required. |
| St Matthews CE School | +54% | New Head and new Schools Business Manager resulted in additional testing, provision of training, guidance and improvement advice. |
| Council Tax/NNDR | +17% | Increased sample sizes required by KPMG following last year's audits. One auditor new to this area's IT systems. |
| Multi-Storey Car park | +121% | This was identified as a risk area due to cash collection issues following implementation but time allocation severely underestimated as were still other issues and several areas of the Council involved. |
| Grange Park primary School | +11% | Unable to reconcile income and additional discussions undertaken re report grading. |

The reasons for the variances are as explained above. As a result of this information the team will where appropriate review scopes, work practices and time estimates for future 2015/16 and 2016/17 audits and these will continue to be closely monitored.

5.5 From Appendix A there were nine Amber reports issued during quarters two and three (plus the one part of the opinion for Cash Collection). A summary of the nine is provided in Appendix D. For these Amber reports management actions and time scales have been agreed to implement the recommendations and follow ups are scheduled. Internal Audit is confident that management will implement the recommendations to provide appropriate assurance and improved controls.

5.6 Areas of more than 10 days from Appendix B are explained below:

| Audit Area | Days | Explanation |
|--|-------------|---|
| Advice & Consultancy | 57 | Continued advice and guidance sought due to more commercial approach and staff new to roles and responsibilities due to restructures |
| Cash collection | 23 | Fundamental Audit |
| Council Tax & NNDR | 42 | Fundamental Audit |
| Facilities Management Help Desk Review | 12 | Two areas to test and new auditor training |
| Housing benefit & Council Tax Support Scheme | 16 | Housing Benefit fundamental Audit defined by External Audit but Council Tax support scheme continues to be a key Council system |
| Multi Storey Car Park | 11 | Cash collection issues identified following implementation but time allocation underestimated as there were additional issues identified and several areas of the Council involved. |
| Newdale Primary School | 12 | Testing took longer than normal. |
| Purchase Ledger | 29 | Fundamental Audit |
| Payroll/Human Resources | 43 | Fundamental Audit and additional testing to ensure External Audit requirements have been met |
| Sales Ledger | 31 | Fundamental Audit |
| St Matthews Primary School | 12 | Testing took longer than normal. |
| The Place | 16 | Many queries on income especially in respect to the bar |
| Town Park | 12 | Follow up of previous system failures in addition to standard audit |
| Transport to Schools – pre and post 16 | 13 | New audit area and due to blurred position in respect to roles additional testing and clarification sought. |

5.7 From Appendix C the position on reports which remain amber are as shown in the table below:

| No | Area Audited | Original grade | Revised grade | Current position/comments |
|-----------|--------------------------|-----------------------|----------------------|---|
| 1. | Abacus system & concerns | Red/ Amber | Amber/ Yellow | Update agreed to January 2016 meeting |
| 2. | Moorfield Primary School | Red | Amber | Original second follow up re-arranged for Autumn term due to absence of Schools Business Manager. Still in progress as further evidence has been requested. |
| 3. | Direct Payments | Amber | | Responses to follow up delayed due to the implementation of the Adult Social Services restructure and external review of the Direct Payment processes. |
| 4. | Charlton School | Amber | | Follow up information returned by school and further evidence required alongside a visit in January 2016. |
| 5. | Section 17 Payments | Amber | Amber | Follow up completed and remains Amber. Next follow up due April 2016. |

5.8 All other areas reported on in this update report but not highlighted to members are either improving or the follow ups are in progress or planned. Internal Audit is confident and has been assured by management that controls have and will continue to improve in all areas where recommendations have been made. There are no other issues to bring to the attention of the Committee at this time.

6 INTERNAL AUDIT CHARTER 2016/17

- 6.1 The Public Sector Internal Audit Standards require Internal Audit to have a Charter which sets out the purpose, resources, reporting and other information important to provision of a service that meets the definition of Internal Audit.
- 6.2 The 2015/16 Charter has been reviewed and updated for 2016/17 to reflect the following:
- a) The Internal Professional Practices Framework – the 10 core principles for the Professional Practice of Internal Auditing;
 - b) The resources available for 2016/17;
 - c) The revised title of the Service Delivery Manager to Internal Audit, Information Governance and Insurance Services as she took over responsibility for Insurance on 17th November 2015 (although the current retender is being completed by Finance colleagues); and
 - d) Other minor changes to reflect the changing organisation.

7 EXTERNAL ASSESSMENT OF INTERNAL AUDIT AGAINST THE PUBLIC SECTOR INTERNAL AUDITING STANDARDS (PSIAS)

- 7.1 The PSIAS in Standard 1310 sets out the requirement for a Quality Review and Improvement Programme (QAIP) which includes both internal and external assessments of the Internal Audit activity.
- 7.2 Standard 1311 states that these assessments should comprise two interrelated parts; on-going monitoring and periodic self-assessment. On-going monitoring covers day to day operational issues such as file reviews etc. Periodic self-assessment looks at compliance against the standards as a whole and this work is required to be completed by the Chief Audit Executive, or senior audit member with the appropriate/relevant experience.
- 7.3 Standard 1312 states that an external assessment must be conducted at least once every five years. Therefore all Councils will need to have completed an external review prior to the 31 March 2018. Given the likelihood that demand for reviews in the financial year 2017/18 is going to be high and the scheduled restructure within Finance & Human Resources during this period it is prudent to have the external review completed during 2016/17.
- 7.4 In terms of the external assessment this must be completed by someone independent to the organisation and be qualified in the practice of internal auditing. Independence for these reviews is critical to give the assurance of an objective external assessment.
- 7.5 An external peer review could provide a cost effective approach particularly for small audit teams however the independence criteria must be met. Guidance from the standards considers an assessor to be independent so long as they do not report to the Audit Manager of the organisation under assessment.
- 7.6 Staffordshire Chief Auditors Group (SCAG - made up of Staffordshire County Council and the shire districts plus High Peak BC and Staffordshire Fire & Rescue) led by Newcastle BC have undertaken work during 2015 in order to conform to the Standards but keep time and costs down for respective authorities. They have also invited Shropshire Council and Telford & Wrekin to join their arrangements – subject to Audit Committee approval.
- 7.7 SCAG has considered a number of options with regards to the requirements of the external assessment see summary in the table below:

| Option | Comments – Pros and Cons | Estimated costs** |
|--|---|---|
| 1. Peer review | <p>This would involve the authorities taking part undertaking a review of another authority.</p> <p>Considerations:</p> <p>(a) Due to the different management arrangements for the audit teams across Staffordshire plus Shropshire and Telford & Wrekin there is a danger that if the reviews were to be undertaken by ourselves there would be inconsistencies.</p> <p>(b) Also as Midlands authorities (including then ones involved in this arrangement) regularly support each other in the development of documents/processes via networking events there is a risk that peer review would not be objective enough.</p> <p>(c) To undertake the reviews ourselves would have a significant impact on our own internal resources. This would include specification, completion of our own individual authority's self-assessment and collating the necessary documentary evidence, which in itself is a considerable task but then we would be required to spend at least 3 days undertaking an assessment at another authority plus additional days for feedback, compiling a report and presentation to the Audit Committee.</p> <p>(d) There is also a strong view by those involved in this arrangement that to undertake the reviews ourselves would not give a true independent assessment as required by the Standards.</p> | Minimum 6 days' time of Audit, IG & Insurance Services SDM |
| 2. Collaborative procurement of an external self-assessment | <p>A collaborative procurement approach to the external assessment by appointing an external independent body/person to undertake the assessment for all the authorities.</p> <p>Benefits:</p> <p>(a) This option provides a true independent assessment.</p> <p>(b) Good practice ideas from other organisations that they have reviewed.</p> <p>(c) Economies of scale will be achieved by this collaborative procurement approach.</p> <p>(d) Limited authority time during the assessment – just time for feedback, review of the report and response to Audit Committee.</p> <p>A number of providers have been approached to ascertain an indicative cost of this type of assessment being undertaken (separate to the collaboration). A detailed specification is being drawn up by the lead authority from SCAG with comments from participating Councils.</p> | Market testing estimates from £1,500 to £7,500 for 3 day assessment per authority. Minimal additional T&W time as lead authority undertaking the spec and procurement work (in consultation with member authorities). |
| Hybrid – Procure an external independent assessor & combine with a Peer review | An additional approach provided by one supplier during market testing was for an external assessor to be brought in at the beginning of the process to train member authorities to be able to undertake a peer review to ensure a consistency in the approach undertaken. The assessments are completed by member authorities and | Share of £7,500 - £10,000 (at £2,500 per day) plus estimated 8 days (up to 2 days training & |

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| | <p>then the results are then reviewed by the external assessor to ensure that the approaches undertaken have been consistent and fair.</p> <p>This approach should eliminate the issue of a potential inconsistent approach but would impact on the resources of members in respect to training and then undertaking reviews.</p> | <p>minimum 6 days as per Peer review option above).</p> |
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** - excluding time required for the self-assessment which is required by all options.

7.8 Recommended Option – Collaborative procurement of an External Self-Assessment:

The approach preferred by SCAG (and endorsed by their Finance Officers) which T&W has been invited to be part of is to undertake a collaborative approach by procuring an independent external assessor to undertake all the reviews for the Staffordshire authorities plus Shropshire & T&W Council. The benefits of this for T&W are minimal procurement time, that the approach would be consistent, demonstrate a true independent assessment, and enable best practice to be shared. The procurement process will demonstrate value for money and assessment costs would be met from within existing budget

8 OTHER CONSIDERATIONS

| AREA | COMMENTS |
|---------------------------------|---|
| Equal Opportunities | <p>All members of the Internal Audit, IG and Insurance Services Team have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.</p> <p>The procurement for the External Assessment will follow proper practices in respect to procurement and equalities.</p> |
| Environmental Impact | <p>All members of the Internal Audit, IG and Insurance Services Team are environmentally aware and if any issues were identified they would be notified to the appropriate manager.</p> <p>The procurement process will ensure appropriate sustainability.</p> |
| Legal Implications | <p>The Accounts and Audit Regulations 2015 (Part 2, paragraph 5) state that the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The information set out in this report illustrates the work that has been undertaken to meet the appropriate statutory requirements.</p> <p>There is also a requirement to comply with the Public Sector Internal Audit Standards. Undertaking the audits as set out in the report and providing updates to this Committee contributes towards meeting these requirements. In the event that an audit reveals an issue which requires a recommendation concerning a legal matter this can also be referred to the Council's Legal Services Team for further advice and assistance.</p> <p>Regarding the external assessment, whilst we are not the lead authority for the procurement, officers will take advice from the Council's Corporate Procurement Team in relation to our contribution to the procurement process where required.</p> |
| Links with Corporate Priorities | <p>All aspects of the Internal Audit, IG and Insurance Services teams work support good governance which underpins the achievement of the Council's objectives and priorities.</p> <p>An effective Internal Audit service will contribute to all corporate priorities and look to identify efficiencies and improvements in effectiveness.</p> |

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| Risks and Opportunities | All aspects of the Internal Audit, IG and Insurance Services teams work supports managers and the Council to identify and manage their risks and opportunities. |
| Financial Implications | Financial monitoring is currently showing that Internal Audit, IG and Insurance Services are operating within budget for 2015/16. Team members will identify cost implications arising from reviews wherever possible. The costs of the external assessment will be met from within existing resources in 2016/17 plus setting aside some of the additional income generated during 2015/16. |
| Ward Implications | The work of the Internal Audit, IG and Insurance Services team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards. |

9 BACKGROUND PAPERS

Annual Audit Plan 2015/16 and Charter

Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector 2013

CIPFA Local Government Application Note – April 2013

Internal Professional Practices Framework

Accounts and Audit Regulations – 2015

Report by Jenny Marriott, Internal Audit, Information Governance & Insurance Services Manager.
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FINAL REPORTS ISSUED QUARTERS TWO and THREE – JULY TO DECEMBER 2015

| Audit Area | Opinion | Follow Up Due | Days allocated | Days Taken | Variance % |
|--|----------------|---------------------------------------|-----------------------|-------------------|-------------------|
| St Georges School | Green | N/A | 9 | 10.3 | +14% |
| Scott / Linden Centre | Yellow | January 2016 | 9.25 | 8.52 | -8% |
| ASC Prototype Review | N/A | When fully implemented 2016/17 | 8 | 1.3 | - 84% |
| Treasury Management | Green | 2016/17 audit | 10 | 11.6 | +16% |
| Setting Up home Grant (Leaving Care) | Amber | November 2015 | 8 | 3 | -62% |
| Financial Assessment review | Amber | January 2016 | 12 | 14.6 | +22% |
| Transport (adults) | Amber | January 2016 | 8 | 12.5 | +56% |
| CH2M Halcrow | Amber | December 2015 | 1 | 2.5 | +150% |
| Leaving care – review of process | Amber | Jan 2016 | 10 | 11.4 | +14% |
| Procurement | Yellow | January – March 2016 | 20 | 30.25 | +8% |
| GPC expenditure | Yellow | March 2016 | 8 | | |
| Windmill Primary School | Yellow | March 2016 | 7.75 | 8.6 | +11% |
| Wrockwardine Wood Junior | Yellow | March 2016 | 7.75 | 9.5 | +22% |
| Horsehay | Yellow | April 2016 | 7 | 9.2 | +31% |
| Cash Collection – Corporate Finance – Income Management | Yellow | 2016-17 Audit | 20 | 22.86 | +14% |
| Cash Collection – Registrars | Yellow | 2016-17 Audit | | | |
| Cash Collection – Transport & Highways Development | Amber | 2016-17 Audit | | | |
| Cash Collection – Development, Business & Employment | Green | 2016-17 Audit | | | |
| Cash Collection – Neighbourhood Services Business Development | Green | 2016-17 Audit | | | |

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|---|---------------|----------------------|--------------|--------------|--------------|
| Facilities Management help Desk review | Yellow | April 2016 | 10 | 13.60 | +36% |
| Car Parking & Enforcement (Excluding Multi-Storey) | Yellow | June 2016 | 5 | 10.3 | +106% |
| Adult Social Care Payments | Yellow | April 2016 | 18 | 24.6 | +37% |
| Donnington Wood Junior School | Yellow | May 2016 | 7.75 | 8.86 | +14% |
| St Matthews C E School | Amber | Feb 2016 | 7.75 | 11.92 | +54% |
| Council Tax & NNDR | Yellow | 2016-17 Audit | 38 | 44.58 | +17% |
| Multi Storey Car park - Southwater | Amber | March 2016 | 5 | 11.04 | +121% |
| Grange Park Primary School | Amber | Feb 2016 | 8.25 | 9.45 | +11% |
| Downing House | Amber | March 2016 | 7 | 7.3 | +4% |
| Waste Quality Performance Monitoring | Yellow | June 2016 | 5.75 | 7.92 | +38% |
| Newport Junior School | Yellow | June 2016 | 7.75 | 6.1 | -21% |
| Sales Ledger | Yellow | 2016-17 Audit | 20.45 | 27.76 | +36% |

**AUDIT WORK UNDERTAKEN FOR QUARTERS TWO AND THREE FOR A PERIOD OF 1 DAY
OR MORE**

| Audit Area | Days |
|--|------|
| Adult Safeguarding Follow Up | 2 |
| Adult Social Care Payments | 7 |
| Adult Social Care Project | 2 |
| Advice & Consultancy | 57 |
| Bank Project Team | 1 |
| Holy Trinity School (BRJ) Follow Up | 1 |
| Care & Enablement provider services | 1 |
| Cash Collection | 23 |
| Charlton - Directed Salaried Grant 2015-16 | 1 |
| Children's Brokerage | 1 |
| Council Tax & NNDR | 42 |
| Discharge to Care - Mental Health Home from Hospital | 1 |
| Donnington Wood Junior School | 9 |
| Downing House Clients Records & Finances | 7 |
| External IT Audit, Contract Management & Procurement | 6 |
| Facilities Management - Help Desk Review | 12 |
| Financial Assessment Process Review | 4 |
| Follow ups | 6 |
| Fraud Risk Tool/Register | 2 |
| General Ledger | 4 |
| Grange Park | 9 |
| Halcrow Contract | 1 |
| Haughton School | 8 |
| Horsehay Golf Course | 9 |
| Housing Benefits & CTAX Support Scheme | 16 |
| Bridge House Complaint | 5 |
| Leaving Care Process | 3 |
| Local transport grant | 2 |
| Customer Referral | 1 |
| Moorfield Follow Up | 3 |
| Mount Gilbert Follow Up | 1 |
| Multi storey car park | 11 |
| National Fraud Initiative | 4 |
| Newdale Primary | 12 |
| Newport Junior School | 6 |
| Oakengates Children's centre Follow Up | 2 |
| Other Car Park Contracts | 10 |
| P2P - Purchase Ledger | 29 |
| Payment of Employee Allowances | 4 |
| Payroll / HR | 43 |
| PCI Compliance (debit and credit card standards) | 2 |
| Pot Hole Grant | 4 |
| Procurement including GPC | 7 |
| Property Investment Portfolio (Review of bad debts) | 1 |
| Sales Ledger | 31 |

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| Section 17 payments | 2 |
| St Georges Primary School | 1 |
| St Matthews Primary School | 12 |
| The Place | 16 |
| Town Park | 12 |
| Transport Processes Review - Adults | 4 |
| Transport to Schools - pre & post 16 | 13 |
| Treasury Management | 1 |
| Troubled Families Grant | 1 |
| Waste Quality Performance Monitoring | 8 |
| Windmill Primary School | 7 |
| Woodlands Primary | 6 |
| Wrockwardine Wood Junior School | 2 |