

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 27th JUNE 2017

2016/17 INTERNAL AUDIT QUARTER 4 UPDATE REPORT including the results of the EXTERNAL ASSESSMENT AGAINST THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND INTERNAL AUDIT PLAN 2017/18

REPORT OF THE AUDIT & GOVERNANCE TEAM LEADER

1 PURPOSE

- 1.1 To update members on the work of Internal Audit during quarter four – January to March 2017 including the results of the External Assessment of Internal Audit against the Public Sector Internal Audit Standards (PSIAS).
- 1.2 For members to consider and approve the Internal Audit Plan 2017/18.

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the information contained in this report in respect to quarter 4 2016/17 and the External Assessment against the PSIAS.
- 2.2 That members of the Audit Committee approve the Internal Audit Plan 2017/18 attached as Appendix G

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 update for 2016/17 in respect to quarter four – January – March 2017 and the Internal Audit Plan for 2017/18 for approval by the Committee.
- 3.2 Internal Audit proper practice according to the Accounts and Audit Regulations 2015 are the PSIAS and once every 5 years an external assessment of compliance to the Standards should take place. The assessment for T&W Internal Audit was undertaken in January 2017 and the results are included in this report.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 30th June 2016 – 2015/16 Internal Audit Quarter 4 Update Report and Internal Audit Plan 2016/17 and Information Governance Work Programme 2016/17
Audit Committee 20th September 2016 – Internal Audit Quarter 1 Update and IG update to July 2016.
Audit Committee 31st January 2017 – Internal Audit Update report Quarter a 2 and 3

5 QUARTER 4 - INTERNAL AUDIT UPDATE

- 5.1 This report provides information on the work of Internal Audit from 1st January – 31st March 2017 and provides an update on the progress of previous audit reports issued (July 2013 to December 2016).

- 5.2 The key focus for the team during the quarter was the completion of the audit plan including the fundamental systems audits. The resources available were affected by the external PSIAS assessment - preparations and the actual visit (9th – 13th January 2017) and the SDM was also engaged in the development of restructure proposals that were launched on 3rd April 2017 for a 45 day consultation period. The new structure was confirmed on 18th May 2017 and will be effective from 12th June 2017. The Audit & Governance Team Leader is now the designated Chief Audit Executive under the PSIAS as the SDM post was deleted from the establishment.
- 5.3 Work continued on the longer term arrangements for IT and general audit provision for 18/19 onwards when the current extended framework contract comes to an end on 31st August 2017. Staffordshire County Council are undertaking a repeat procurement for the framework which now includes other local authorities which should assist in securing even better value for us as one of the members.
- 5.4 The following internal audit update report appendices are attached:
- i) **Appendix A** – List of final reports issued in quarter four 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 quarter four for a period of 1 day or more.
 - iii) **Appendix C** - Previous graded reports from July 2013 to December 2016 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 5 amber reports issued in quarter four.
- 5.5 Appendix A shows 19 reports were issued in quarter four. 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
Sales Ledger	-22.4%	Service areas made staff available so testing went smoothly
Teagues Bridge School	+35.75%	Additional testing required in an area that the school disagreed with our findings.
Personal Safety Precaution Register	+25.6%	New audit area so difficult to estimate. Also longer than normal time taken to agree the report.
Arthog	+86.3%	Additional testing carried out on payroll due to rotas and input to payroll not matching. A lot of advice and guidance provided as new staff at the Centre. Also need to ensure that include travel time in time allocations in future due to location.
Additional Payments to Foster Carers	+54%	More complicated than time allocation had provided for as testing took some time. Also some chasing required to obtain responses to the draft report.
Benefits	-42%	Service areas made staff available so testing went smoothly.
Ice Rink Vending	+15.2%	Slightly more work than had been anticipated.

The reasons for the variances are as explained above and the scopes and time allocations for 2017/18 audits will be informed by this information and will be closely monitored.

- 5.6 From Appendix A there were 5 Amber reports issued during quarter four. A summary of each report is provided in Appendix D. For these Amber reports management actions and time scales were agreed to implement the recommendations. Follow ups are either in progress or planned and the results will be reported in the Committee in September.

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

Audit Area	Days	Explanation
Advice & Consultancy	30	The organisation continues to changes and do things differently but there is the desire to get controls, processes and procedures right hence service areas are seeking help and advice.
General Ledger	20	Completion of fundamental audit which commenced quarter 3.

5.8 From Appendix C the position on reports which remain Amber are as shown in the table below but many have already been referred to in the earlier item on the agenda covered by the Managing Director.

No	Area Audited	Original grade	Revised grade	Current position/comments
1.	Supervision Policy (adults & children's)	Amber	Amber	One follow up undertaken and no improvement. Second follow up in progress.
2.	Core Group meetings (children's)	Amber	Yellow	One follow up undertaken and no improvement. Second follow up completed May 2017 and moved to Yellow. Further audit to take place during 2017/18
3.	West Road Petty Cash	Amber	Yellow	Second follow up completed and moved to a yellow grading.
4.	Children's arrangement orders	Amber	Amber	2 nd follow up undertaken, no changes to grading, however the service area have now set up a working group and have allocated responsibility for the implementation of each recommendation.
5.	Temporary accommodation	Amber	Yellow	2 nd follow up undertaken and moved to a yellow

5.9 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.

Quality Assurance and Improvement Programme

5.10 The SDM has continued to undertake quarterly spot checks of audit files to review compliance to the PSIAS alongside the normal quality review process applied to all audit assignments. No issues were identified in quarters 3 and 4.

5.11 Members are aware that the External Assessment was undertaken during week commencing 9th January 2017. The full report is attached as Appendix E to this report and the External Assessor concluded - "I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity".

5.12 The action plan with the recommendations and suggestions and agreed actions is attached as Appendix F with current progress on implementation included. There are also two suggestions in Appendix F.

6 INTERNAL AUDIT PLAN 2017/18

- 6.1 Internal Audit has a statutory obligation under legislation to provide assurance to the Council as part of the Council's corporate governance framework and the effective management of risks. It also strives to provide a quality, added value and up to date service for the Council.
- 6.2 Internal Audit work, in addition to obtaining assurance on key areas, risk management and controls for the Council, aims to challenge where controls are not required, question value for money and make suggestions for adjustments to existing controls to make processes more efficient. This contributes to 'Being the Change' and will assist managers and their teams to achieve their objectives, identify further savings and contribute to the achievement of the Council's priorities.
- 6.3 Internal Audit resources are limited. To ensure Internal Audit can provide reasonable assurance to managers, Members and the Council an annual Audit Plan is developed. Professional Internal Audit standards¹ and good practice set out that Internal Audit planning should be directly linked to the Council's objectives and priorities and be directed by the Audit Charter agreed by the Audit Committee in January 2017. The plan is informed and influenced by previous Internal Audit work, areas highlighted during previous audits, areas identified by management teams, External Audit requirements, the strategic and ICT risk registers, external assessments and local, regional and national networking intelligence.
- 6.4 The plan is attached as Appendix G with detail at the bottom for the ICT audit work which has been informed by discussion with ICT and challenge from suppliers on the external framework. The plan has been drawn up based on the internal and external resources available for 2017/18 (see 6.5 below), the factors in paragraph 6.3 above and discussions with the CFO. The resultant plan should provide a reasonable level of assurance for 2017/18 but limited to the areas reviewed. It also includes all the work identified by the external auditor that can be undertaken by Internal Audit to meet their requirements. If this was not included then the external audit fee could increase significantly (by up to £100,000).
- 6.5 The planned resources for 2016/17 were 991 plus 60 days specialist ICT audit work (total resources 1051) but were adjusted down to a total of 949 due to the auditor post being vacant from September and only being part back filled by the use of the external contractor. The resources for 2017/18 are 944 plus 46 days specialist ICT audit work (total resources 991) due to the restructure and full audit complement not being effective until mid June 2017.
- 6.6 Based on good practice the plan includes a (approximate) 10% contingency to meet any unexpected work requirements, any changes identified during the year or changes to resources during the year. Due to the nature of the plan and its link to risks, during delivery there will be regular dialogue with the CFO, SMT and managers to ensure that the appropriate risks and controls are being reviewed by the resources available. Any significant changes will be agreed with the CFO and appropriate AD and will be reported for information to SMT and this Committee.
- 6.7 The External Auditor undertakes their own planning process and presents their plan to the Audit Committee. Internal Audit and Senior Management liaise with them to ensure that duplication is avoided, that the key risks are reviewed and that the external audit fee is minimised. Similar liaison takes place with Scrutiny to avoid duplication or to ensure work is complementary.

¹ Public Sector Internal Audit Standards

The 2017/18 plan has been drawn up based on the audit resources available for 2017/18. The plan so far will provide reasonable assurance on the areas outlined and includes all the work identified by the External Auditor that can be undertaken by Internal Audit to meet their requirements. If this was not included then the External Audit fee could increase significantly (by up to £100,000).

6.8 The risk ratings have been assessed based on a scoring mechanism taking into account the contribution to corporate priorities, the strategic risk register and “Being the Change”. The markings shown in the annual plan represent the following:

H* - required to meet the current External Auditors requirements

H+ - linked to the Ofsted action plan

H++ - linked to the recent external assessment of Internal Audit against the PSIAS

7 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of the Audit Team have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.
Environmental Impact	All members of the Audit Team are environmentally aware and if any issues were identified they would be notified to the appropriate manager.
Legal Implications	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. In the event that an audit reveals a legal issue or concern this is referred to the Council’s Legal Services Team and/or the Council’s Monitoring Officer for further advice and assistance.
Links with Corporate Priorities	All aspects of the Audit teams work support good governance which underpins the achievement of the Council’s objectives and priorities.
Risks and Opportunities	All aspects of the Audit teams work supports managers and the Council to identify and manage their risks and opportunities.
Financial Implications	Financial monitoring is currently showing that Audit, IG, Insurance & Investigations are operating within budget for 2016/17. There are therefore no financial implications arising from adopting the recommendations of this report.
Ward Implications	The work of the Audit team encompasses all the Council’s activities across the Borough and therefore it operates within all Council Wards.

8 BACKGROUND PAPERS

Annual Audit Plan 2016/17 and Charter

Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector 2013 and updated January 2017

CIPFA Local Government Application Note – April 2013

Accounts and Audit Regulations – 2015

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FINAL REPORTS ISSUED QUARTER FOUR – JANUARY TO MARCH 2017

Audit Area	Opinion	Follow Up Due	Days allocated	Days Taken	Variance %
Sales ledger	Revs = yellow Legal = Amber Corporate = Yellow	2017-18 audit	20	15.52	-22.4%
Teagues Bridge Primary	Amber	April 2017	8	10.86	+35.75%
Transition Process	Yellow	July-September 2017	10	9.08	-9.2%
Personal Safety Precaution (PSP) Register processes	Yellow	July-September 2017	5	6.28	+25.6%
Anti-Virus Arrangements*	Amber	May/June 2017	n/a	n/a	n/a
Privileged User and Tools*	Amber	May/June 2017	n/a	n/a	n/a
Software Licensing*	Yellow	August 2017	n/a	n/a	n/a
Arthog	Amber	June 2017	9.50	17.7	+86.3%
John Fletcher of Madeley	Yellow	September 2017	8	7.48	-6.5%
Additional Payments to Foster Carers	Amber	June 2017	7	10.78	+54%
Benefits	Yellow	2017/18 audit	28	16.3	-42%
Blue Badge	Yellow	2017/18 audit	See Benefits		
Payroll*	Yellow	2017/18 audit	n/a	n/a	n/a
Ice Rink Vending	Yellow	July –Sept	2.5	2.88	+15.2%
ICT Network Management*	Yellow	September 2017	n/a	n/a	n/a
Shortwood Primary	Yellow	September 2017	8	7.59	-5.1%
CRM ICT Application*	Yellow	September 2017	n/a	n/a	n/a
EDMS ICT Application*	Yellow	September 2017	n/a	n/a	n/a
General Ledger	Yellow	As part of 17/18 audit	30	28.58	-4.7%

* Work undertaken by specialist third party contractor under framework contract

AUDIT WORK UNDERTAKEN FOR QUARTER FOUR FOR A PERIOD OF 1 DAY OR MORE

Audit Area	Days
Additional Payment to Foster Carers	4
Advice & Consultancy including org change	30
AGS Certification Assurance 2016-17	3
Arthog	4
Benefits 2016-17	4
Children's Direct Payments	1
Childrens Savings	6
Civica Upgrade	2
Council Tax / NNDR 2017-18	1
Customer Contact Centre	7
Donnington Wood Infants	9
External IT Audit, Contract Management & Procurement	5
Family Nurse Partnership	1
Follow ups	7
General Ledger 2016-17	20
GPC	6
John Fletcher of Madeley Primary School	7
PSP Register review	1
Leisure - Central Admin Procedures	10
Moorfield Primary School	7
My Choices	6
My Options	5
National Fraud Initiative	1
Newport Infants School	1
Nuplace	8
PCI Compliance	1
Pride in the High Street & Monitoring	3
Review of Procurement Contracts	3
PSE Upgrade	1
Shortwood School	1
Ski Centre 2016-17	8
St Patricks RC Primary School	1
Telford Ice Rink - Vending Machines	3
Tibberton School	8
Trading to schools	1
Transition Process	1
Troubled Families Grant	2
West Rd / Granville House Imprest follow up	2