

Internal Audit Progress Report @ 31 December 2017



1 Introduction

The purpose of this report is to bring the Audit and Risk Assurance Committee up to date with the progress made against the delivery of the 2017/18 Internal Audit Plan.

The information included in this progress report will feed into, and inform our overall opinion in our Internal Audit Annual Report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	<ul style="list-style-type: none">A risk of objectives not being achieved due to the absence of key internal controls and a significant breakdown in the application of controls.
Satisfactory	<ul style="list-style-type: none">A sufficient framework of key controls for objectives to be achieved but the control framework could be stronger and controls are applied but with some lapses.
Substantial	<ul style="list-style-type: none">A robust framework of controls ensures objectives are likely to be achieved and controls are applied continuously or with only minor lapses.

This is based upon the number and type of recommendations we make in each report. Each recommendation is categorised in line with the following:

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits attention	Action advised to enhance control or improve operational efficiency.

For school reviews, the overall opinion is based on the following criteria to match the assurance categories awarded by Ofsted:

Inadequate	<ul style="list-style-type: none">• Risk of objectives not being achieved due to the absence of key internal controls, with significant breakdown in the application of controls.
Satisfactory	<ul style="list-style-type: none">• Reasonable framework of key controls exists, but could be stronger to support achievement of objectives, with occasional breakdown in the application of controls.
Good	<ul style="list-style-type: none">• Effective framework of key controls ensures objectives are likely to be achieved and controls are applied but with some minor lapses.
Outstanding	<ul style="list-style-type: none">• Robust framework of key controls ensures objectives should be achieved and controls are applied continuously.

The overall opinion for each of the school reviews is based upon the number and type of recommendations we make in each report, in line with the recommendation classifications for non-schools, i.e. fundamental, significant and merits attention.

2 Performance of the Audit Service

Staffing

Indicator	Actual
% of Audit Service staff, professionally qualified (target 34%)	40%

Relationships/Customer Satisfaction

Question	Average Score 2017/18 (to date*)	Average Score 2016/17
Usefulness of audit	5.0	4.4
Value of recommendations	5.0	4.4
Usefulness of initial discussions	5.0	4.6
Fulfilment of scope & objectives	5.0	4.5
Clarity of report	5.0	4.6
Accuracy of findings	5.0	4.8
Presentation of report	5.0	4.8
Time span of audit	5.0	4.4
Timeliness of audit report	5.0	4.4
Consultation on findings/recommendations	5.0	4.5
Helpfulness of auditors	5.0	4.5
Overall satisfaction with Audit Services	5.0	4.5

Scores range between 1 = Poor and 5 = very good. We have a target of achieving on average a score of 4 = good.

3 Summary of Work Completed between 1 April and 31 December 2017

AAN	Assessment of Assurance Need Rating
*	Awaiting Response (all longstanding responses will be brought to the attention of the committee throughout the year for monitoring purposes)
N/A	Not Applicable, review outside of normal risk based auditing approach/customer request/grant claim, etc.

Auditable Area	AAN rating	Recommendations			Total	Number accepted	Level of Assurance
		Fundamental	Significant	Merits attention			
Reported previously at 30 September 2017							
Meadows Sports College	Medium	-	1	10	11	11	Satisfactory
St Mary Magdalene Primary School	Medium	-	1	6	7	7	Good
Lodge Primary School	Medium	-	-	5	5	5	Good
Moat Farm Infant School	Medium	-	1	6	7	7	Good
Wednesbury Local Centre	High	-	-	1	1	1	Substantial
Boscobel Tenant Management Organisation	Medium	-	1	-	1	1	Substantial
Riverside	Medium	1	5	1	7	7	Limited
House Building Development Programme	Medium	-	-	-	-	-	Substantial
Carbon Reduction Commitment	High	-	-	-	-	-	Substantial
Pot Hole Action Fund Certification	High	-	-	-	-	-	N/A
Rood End Primary School	Medium	-	3	9	12	12	Satisfactory
Lyng Primary School	Medium	-	-	4	4	4	Good
Ocker Hill Infant School	Medium	-	-	6	6	6	Good
Rowley Hall Primary School	Medium	-	1	3	4	4	Good

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Auditable Area	AAN rating	Recommendations			Total	Number accepted	Level of Assurance
		Fundamental	Significant	Merits attention			
Mayors Accounts	Medium	-	-	-	-	-	Substantial
Reported for the first time							
Hateley Heath Primary School Follow Up	N/A	-	-	-	-	-	N/A
Christchurch Primary School Follow Up	N/A	-	-	-	-	-	N/A
Newtown Primary School	Medium	-	13	15	28	*	Inadequate
Tameside Primary School	Medium	-	4	2	6	*	Satisfactory
Temple Meadow Primary School	Medium	-	2	2	4	*	Good
Further Education Funding Grant Certification	High	-	-	-	-	-	Substantial
Budgetary Control	High	-	2	-	2	2	Satisfactory
Main Accounting System	High	-	1	1	2	2	Substantial
Accounts Payable	High	-	1	1	2	*	Substantial

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Audits underway as at 31 December 2017
Council Tax
Accounts Receivable
Security Controls, Financial Systems
Benefits
National Non-Domestic Rates
Capital Accounting
Treasury Management
Riverside – Energy Performance Certifications
Schools (1)
Personal Budgets

4 *Key issues arising for the period 1 October to 31 December 2017*

A general overview of other areas of planned audit work completed during the period is given below:

Further Education Funding Grant Certification

A review was undertaken of the local authorities' grant return and use of funds statement for 2016 to 2017. The purpose was to reconcile the payments made to the authority by the Educating Funding Agency (EFA). The review concluded that the grant claim could be signed off by the Chief Financial Officer in accordance with the guidance issued by the EFA.

School Audits

We continued our annual school audit programme, and three further reviews have been undertaken to assess whether the schools had adequate governance, risk management and control processes in place to ensure that financial management and governance arrangements were satisfactory. Of the three schools, one received good assurance, one received satisfactory assurance and one received inadequate assurance. The main recurring issue identified was regarding the School Improvement Plan which outlines the aspirations of the school and the associated resources/costs required to achieve them. While the schools had such a plan, it often only covered the current year and therefore, the mid to long term financial planning was not being effectively undertaken. Guidance from the Department for Education requires such a plan to cover a two or three-year period, to be updated on a rolling basis and to link into the budget. For the school rated as inadequate, the issues in the main, were due to the long term absence of the Business Manager and use of temporary staff, which resulted in lapses in the internal systems and monitoring arrangements, over a period of time.

Budgetary Control

A Budgetary Control process is in place as part of the financial planning and control system. Our annual audit of this process provided satisfactory assurance over the key controls in place. However, two control issues were noted. This included virement transfers did not always comply with the council Financial Regulations and the need for Managers responsible for significantly changed budgets to sign a new budget accountability letter.

Main Accounting System

The Main Accounting System (MAS) for the council resides on the General Ledger module (GL) of the Oracle Financial system. It records and consolidates all the financial transactions carried out.

Our audit involved a review of the key controls over MAS including reconciliations and suspense accounts. As the MAS is a key financial system, the work undertaken (nature and type of tests, sample sizes etc) used in our review are undertaken so that the External Auditors can use our reports to help inform the work that they undertake.

The audit provided substantial assurance over the area. However, we did recommend that controls should be strengthened over unpresented cheques and the need for them to be reviewed and the appropriate action taken.

Accounts Payable

An audit was carried out to examine the key financial processes of Accounts Payable. A recommendation was made regarding the production and examination of an exception report detailing all bank account changes i.e. to highlight where suppliers have requested changes to their bank account. The Financial Systems Team demonstrated that there are existing Discovery reports showing changes to supplier bank details by operator, but at present this is not used.

5 Other audit work carried out

CIPFA – Audit Committee Updates

We continue to present the regular CIPFA Audit Committee Updates to the committee.

Audit and Risk Assurance Committee – Terms of Reference

We submitted the Audit and Risk Assurance Committee Terms of Reference for annual review at the March 2017 meeting of the committee.

Internal Audit Plan 2017/18

We submitted the Internal Audit annual plan for 2017/18 to the committee for approval at the March 2017 meeting.

Internal Audit Annual Report 2016/17

We presented the Internal Audit annual report for 2016/17 to the committee for comment and approval at the August 2017 meeting.

Audit and Risk Assurance Committee Annual Report

Assistance was provided in the preparation of the Annual Report of the Chair, on the work of the Audit and Risk Assurance Committee.

Internal Audit's role in investigating allegations of Fraud and Misconduct

During the year, we have continued to invest a significant amount of internal audit time in working with the Counter Fraud Unit on investigating a number of allegations into potential fraud and misconduct, and where appropriate these will be reported back to the committee as and when they are concluded.

Annual Governance Statement

We assisted in the preparation of the Annual Governance Statement for 2016/17, which was presented to the committee at its meeting held in August 2017.

Code of Corporate Governance

We also helped in the preparation of the council's new Code of Corporate Governance.

Governance Board

We continue to play a role on the council's Governance Board.