

AGENDA NO.

**REPORT TO
AUDIT COMMITTEE**

10 FEBRUARY 2020

**REPORT OF
DIRECTOR OF
FINANCE &
BUSINESS SERVICES**

INTERNAL AUDIT PROGRESS REPORT

SUMMARY

This report provides members with an update of the work carried out by the Internal Audit Section and the progress made against the Audit Plan 2019/20.

RECOMMENDATIONS

It is recommended that:-

1. The current position as identified in the attached update report is noted.

DETAIL

Background

1. Internal Audit is an independent appraisal function established by the Council to objectively examine, evaluate and report on the adequacy of internal controls. This role ensures that there is proper economic, efficient and effective use of resources. It also ensures that the Council has adequate accounting records and control systems.
2. Committee Members are reminded that the list of audit assignments undertaken in the current year to date has been circulated to all Councillors prior to the meeting. The intention is to give Councillors the opportunity to raise questions on issues that affect their ward or other areas of responsibility and for answers to be provided at the meeting.

Current Position

3. The attached update report shows the current position in respect of the progress against the 2019/20 audit plan and the results of the work that has been undertaken.
4. Members may recall an updated approach which included setting up a system of continuous audit. Significant progress continues to be made towards this

with testing now being automated on a monthly basis in a number of areas. Because testing is undertaken continuously there will be a number of audits shown as on-going that will be finalised at the year end.

5. Since the last meeting an auditor has resigned and left for a new role in another authority and a further has submitted their resignation. The plan has been carefully monitored and unfortunately it has been necessary to identify a number of audits for potential cancellation. The audits selected are either low audit risk or areas that have had significant work undertaken within the last 12 months.

FINANCIAL AND LEGAL IMPLICATIONS

None

RISK ASSESSMENT

The results of the work undertaken by Internal Audit can be used by managers to assess their risk exposure, recommendations are made where there is perceived to be unacceptable risk.

COMMUNITY STRATEGY IMPLICATIONS

None

CONSULTATION

N/A

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Background Papers:

Internal Audit Charter
Audit Plan 2019/2020
Counter Fraud Strategy

Ward(s) and Ward Councillors:

None

Property Implications:

None

INTERNAL AUDIT AUDIT COMMITTEE UPDATE REPORT 2019/20

1 AUDIT PROGRESS

1.1 The plan, approved on 25 February 2019, was based on an audit assessment of risk which uses a number of factors to determine the likelihood of issues occurring including an understanding of the full scope of systems in operation, major change, concerns/external interest and results of previous audit work. It then assesses the impact any issues may have on the council's strategic objectives, reputation, financial plans, assets and also the potential impact on individuals and/or the environment.

Audit Progress by Service Group (as at 1 January 2020)

| Department | Planned Audits | Cancelled Audits | Unplanned Audits | Revised Audits | Completed | In Progress | Under Review | Drafts Issued | Not Started | Ready to Start |
|-------------------------------|----------------|------------------|------------------|----------------|-----------|-------------|--------------|---------------|-------------|----------------|
| Corporate | 13 | 2 | 1 | 12 | 1 | 3 | 0 | 0 | 7 | 1 |
| Finance & Business Services | 7 | 1 | 0 | 6 | 3 | 1 | 1 | 0 | 1 | 0 |
| Adults & Health | 7 | 1 | 0 | 6 | 3 | 1 | 0 | 1 | 1 | 0 |
| Children's Services | 12 | 1 | 0 | 11 | 5 | 3 | 0 | 0 | 3 | 0 |
| Xentrall | 11 | 0 | 0 | 11 | 2 | 8 | 1 | 0 | 0 | 0 |
| HR, Legal & Communications | 3 | 1 | 0 | 2 | 1 | 0 | 0 | 0 | 1 | 0 |
| Community Services | 4 | 0 | 0 | 4 | 0 | 2 | 0 | 0 | 2 | 0 |
| Culture, Leisure & Events | 1 | 0 | 1 | 2 | 1 | 0 | 0 | 0 | 0 | 0 |
| Economic Growth & Development | 4 | 2 | 0 | 2 | 1 | 0 | 0 | 0 | 1 | 0 |
| Democratic & Licensing | 1 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 0 |
| Schools | 2 | 0 | 0 | 2 | 0 | 1 | 1 | 0 | 0 | 0 |
| Contingency | 7 | 0 | 0 | 7 | 5 | 2 | 0 | 0 | 0 | 0 |
| DBC Only | 6 | 0 | 0 | 6 | 3 | 2 | 1 | 0 | 0 | 0 |
| Totals | 78 | 8 | 2 | 72 | 25 | 24 | 4 | 1 | 16 | 1 |

1.2 The Audit Plan is constantly revised during the year to take account of changing requirements. Amendments to the Plan agreed on 25 February 2019 can be summarised as follows:

2019/20 Planned Audits Amalgamated/Cancelled/Deferred

- Asset Register – Low priority, no issues in previous year, external audit provide oversight - Continuous
- Absence Management – Significant work undertaken in previous year, assurance managers have access to more detailed reporting than previously - Continuous
- Development Services – Large piece of work undertaken in previous year so lower priority for current year - Continuous
- Land Charges – Work undertaken in previous year, low risk audit on the plan - Continuous

- Building Control – Work undertaken in previous year, no issues identified - Continuous
- First Contact – Service is currently being reviewed - Continuous
- Emergency Duty Team – Service is currently being reviewed- Continuous
- Scheme of Delegation – Low priority audit, work currently on-going to refresh.

2019/20 Unplanned Audits Added to the Plan

Globe Restoration Project
SBC Library Lost Property Controls

1.3 Counter Fraud

The action plan associated with the strategy presented in February 2018 continues to be implemented. Revised intranet and internet pages are now available with articles appearing in KYIT to raise awareness. The pages contain training videos and links providing advice and guidance on emerging issues such as bank mandate fraud.

The latest round of the National Fraud Initiative data matching exercise is due to be submitted in December 2018, arrangements are in place to provide this data. The results have now been received and follow-up will begin on the matches.

2 AUDIT OUTPUT

Engagement Opinions

- 2.1** For each audit carried out Internal Audit provides an overall conclusion as to whether a sound system of internal control is being maintained. Each opinion is either “Full”, “Substantial”, “Moderate”, “Limited”, or “No” assurance depending on the conclusions reached and the evidence to support those conclusions. “Full” and “substantial” assurance normally indicates that the area under review has a reliable system of internal control.

2.2 These individual opinions are summarised below:-

| Opinion | Definition | No. | % |
|-----------------------|---|-----------|----|
| Full Assurance | A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas. | 11 | 61 |
| Substantial Assurance | Overall there is a sound system of internal controls that are operating effectively. The system should achieve its objectives but there are areas where internal controls need to be improved. | 6 | 33 |
| Moderate Assurance | A reasonably sound system of internal controls is being applied, however, there are weaknesses which may put some of the system objectives at risk. | 1 | 6 |
| Limited Assurance | There is either a limited system of internal controls being applied, or there are significant weaknesses in the controls in place, which are posing a substantial risk to the achievement of system objectives. | 0 | 0 |
| No Assurance | The system of internal controls in place is failing and system objectives are not being met. Urgent management attention is required. | 0 | 0 |
| N/A | This classification covers audit work within a small part of a system. Providing an opinion on this work would misrepresent the system as a whole. | 0 | 0 |
| Total | | 18 | |

2.3 An analysis of the recommendations supporting these opinions by priority is shown below:-

| Priority | Definition | No. | % |
|--------------|--|-----------|----|
| Critical | Actions that must be taken immediately to manage significant risks that are likely to prevent the Authority achieving one or more of its corporate objectives. | 2 | 6 |
| High | Actions that should be taken as a matter of priority due to the issues identified posing a substantial risk to the achievement of service/system objectives. | 9 | 28 |
| Medium | Required actions to reduce the risk of systems failing to achieve their objectives. | 16 | 50 |
| Low | Beneficial to the improvement of internal controls, which will support the achievement of objectives. | 5 | 16 |
| Total | | 32 | |

Details of Audits by Service Group

2019/20

| Department | No. of Audits Issued | Opinions | | | | | | | No. of Recs Made | Previous Recommendations | | | |
|-------------------------------|----------------------|-----------|----------|----------|----------|----------|----------|----------|------------------|--------------------------|----------|----------|----------|
| | | Full | Sub | Mod | Lim | None | N/A | Tested | | Passed | Failed | N/A | |
| Corporate | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 4 | 0 | 0 | 0 | 0 |
| Finance & Business Services | 3 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 0 | 0 |
| Adults & Health | 3 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Children's Services | 5 | 2 | 2 | 1 | 0 | 0 | 0 | 0 | 17 | 0 | 0 | 0 | 0 |
| Xentrall | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| HR, Legal & Communications | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 |
| Community Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Culture, Leisure & Events | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 |
| Economic Growth & Development | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 5 | 1 | 1 | 0 | 0 |
| Democratic & Licensing | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Schools | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Contingency | 5 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| DBC Only | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TVCA Only | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 25 | 11 | 5 | 1 | 0 | 0 | 0 | 0 | 31 | 2 | 2 | 0 | 0 |

2018/19

| Department | No. of Audits Issued | Opinions | | | | | | | No. of Recs Made | Previous Recommendations | | | |
|-------------------------------|----------------------|-----------|-----------|----------|----------|----------|-----------|-----------|------------------|--------------------------|----------|-----------|--|
| | | Full | Sub | Mod | Lim | None | N/A | Tested | | Passed | Failed | N/A | |
| Corporate | 10 | 4 | 5 | 0 | 0 | 0 | 1 | 1 | 3 | 0 | 1 | 2 | |
| Finance & Business Services | 7 | 5 | 2 | 0 | 0 | 0 | 0 | 6 | 3 | 1 | 0 | 2 | |
| Adults & Health | 7 | 3 | 4 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 0 | |
| Children's Services | 7 | 2 | 4 | 1 | 0 | 0 | 0 | 3 | 10 | 4 | 0 | 6 | |
| Xentrall | 16 | 13 | 2 | 0 | 0 | 0 | 1 | 3 | 1 | 0 | 1 | 0 | |
| HR, Legal & Communications | 2 | 1 | 1 | 0 | 0 | 0 | 0 | 5 | 0 | 0 | 0 | 0 | |
| Community Services | 5 | 0 | 5 | 0 | 0 | 0 | 0 | 25 | 18 | 10 | 4 | 4 | |
| Culture, Leisure & Events | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | |
| Economic Growth & Development | 8 | 4 | 3 | 0 | 0 | 0 | 1 | 6 | 9 | 6 | 3 | 0 | |
| Democratic & Licensing | 2 | 0 | 2 | 0 | 0 | 0 | 0 | 4 | 0 | 0 | 0 | 0 | |
| Schools | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | |
| Contingency | 8 | 1 | 1 | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 0 | |
| DBC Only | 7 | 0 | 0 | 0 | 0 | 0 | 7 | 0 | 0 | 0 | 0 | 0 | |
| TVCA Only | 3 | 1 | 0 | 0 | 0 | 0 | 2 | 0 | 3 | 3 | 0 | 0 | |
| Total | 84 | 35 | 30 | 1 | 0 | 0 | 18 | 57 | 48 | 24 | 9 | 15 | |

2.4 Shown below is a list of all the audit engagements undertaken during the year together with their assurance opinion.

2019/20 Audit Plan Current Position as at 1 January 2020

| Department | Audit ID | Name | Status | Assurance | Recommendations | | | | | |
|-------------------------------|----------|---------------------------------|--------------|-----------------------|-----------------|---|---|---|------|------|
| | | | | | L | M | H | C | Bud | Rem |
| Corporate | 2606 | Absence Management | Cancelled | | | | | | 10.0 | 9.5 |
| Xentrall | 2607 | Active Directory | In Progress | | | | | | 6.0 | 0.8 |
| Economic Growth & Development | 2610 | Building Control | Cancelled | | | | | | 7.0 | 6.8 |
| Xentrall | 2611 | Cloud Computing | Under Review | | | | | | 5.0 | 0.2 |
| Finance & Business Services | 2612 | Asset Register/Asset Management | Cancelled | | | | | | 7.0 | 7.5 |
| Children's Services | 2615 | Child Placement - Adoption | Complete | Substantial Assurance | 0 | 2 | 1 | 0 | 7.0 | |
| Xentrall | 2617 | Creditors | In Progress | | | | | | 20.0 | 18.4 |
| Adults & Health | 2620 | Client Financial Services | Complete | Full Assurance | 0 | 0 | 0 | 0 | 12.0 | |
| Finance & Business Services | 2621 | Complaints Review | Not Started | | | | | | 9.0 | 9.3 |
| Community Services | 2622 | Community Transport | In Progress | | | | | | 7.0 | 7.3 |
| Xentrall | 2623 | Change Control | In Progress | | | | | | 6.0 | 4.8 |
| Finance & Business Services | 2632 | Housing Benefits | Under Review | | | | | | 18.0 | 0.0 |
| Xentrall | 2634 | Debtors | In Progress | | | | | | 16.0 | 0.0 |
| HR, Legal & Communications | 2642 | Land Charges | Cancelled | | | | | | 6.0 | 6.4 |
| Children's Services | 2646 | Leaving Care | In Progress | | | | | | 7.0 | 0.0 |
| Children's Services | 2648 | First Contact | Cancelled | | | | | | 3.0 | 2.4 |
| Corporate | 2653 | DBS Procedures | Not Started | | | | | | 6.0 | 0.7 |

| | | | | | | | | | | |
|-------------------------------|------|--|-------------|-----------------------|---|---|---|---|------|------|
| Economic Growth & Development | 2654 | Development Services | Cancelled | | | | | | 9.4 | 9.8 |
| Children's Services | 2656 | Early Years & Complex Needs | Not Started | | | | | | 8.0 | 9.1 |
| Xentrall | 2657 | Virtualisation | In Progress | | | | | | 6.0 | 3.2 |
| Adults & Health | 2658 | Emergency Duty Team | Cancelled | | | | | | 3.0 | 3.0 |
| Children's Services | 2659 | Looked After Children | Not Started | | | | | | 12.0 | 11.2 |
| Corporate | 2660 | Officer Payments - Mileage | In Progress | | | | | | 8.0 | 4.2 |
| Finance & Business Services | 2664 | Treasury Management | Complete | Full Assurance | 0 | 0 | 0 | 0 | 7.0 | |
| Finance & Business Services | 2665 | VAT | In Progress | | | | | | 6.0 | 4.0 |
| Finance & Business Services | 2666 | Taxation | Complete | Full Assurance | 0 | 0 | 0 | 0 | 12.0 | |
| Corporate | 2667 | Recruitment Services | Not Started | | | | | | 6.0 | 6.1 |
| Xentrall | 2668 | Server Operating Systems | In Progress | | | | | | 5.0 | 3.8 |
| Adults & Health | 2670 | Personal Budgets & Direct Payments | Complete | Full Assurance | 0 | 0 | 0 | 0 | 7.0 | |
| Xentrall | 2672 | Firewalls | In Progress | | | | | | 6.0 | 6.2 |
| Adults & Health | 2673 | Referral & Assessment - Adults | Not Started | | | | | | 12.0 | 9.3 |
| Xentrall | 2674 | Payroll & Absence Recording | In Progress | | | | | | 26.0 | 25.4 |
| Adults & Health | 2676 | Environmental Health | Complete | Full Assurance | 0 | 0 | 0 | 0 | 6.0 | |
| Community Services | 2677 | Enforcement | Not Started | | | | | | 7.0 | 6.6 |
| Children's Services | 2679 | Youth Offending and Prevention | Not Started | | | | | | 8.0 | 7.4 |
| Children's Services | 2680 | Early Years, Children's Centres & Childcare | Complete | Full Assurance | 0 | 0 | 0 | 0 | 8.0 | |
| Corporate | 2700 | Declaration of Interests/Gifts & Hospitality | In Progress | | | | | | 20.0 | 12.8 |
| Culture, Leisure & Events | 2701 | Adult Education | Complete | Full Assurance | 1 | 1 | 0 | 0 | 15.0 | |
| Xentrall | 2702 | Bank Reconciliation | Complete | < None > | 0 | 0 | 0 | 0 | 12.0 | |
| < None > | 2703 | Catering & Cleaning | Complete | Substantial Assurance | 0 | 0 | 2 | 0 | 20.0 | |
| Children's Services | 2704 | Residential Childrens Homes | Complete | Substantial Assurance | 0 | 4 | 0 | 0 | 10.0 | |
| Corporate | 2705 | Data Protection | Not Started | | | | | | 10.0 | 10.0 |
| Adults & Health | 2706 | Day Centres, Residential & Supported | In Progress | | | | | | 30.0 | 0.0 |

| | | | | | | | | | | |
|-------------------------------|------|--|----------------|-----------------------|---|---|---|---|------|------|
| | | Living | | | | | | | | |
| DBC Only | 2707 | Eastbourne Sports Complex | Complete | < None > | 0 | 0 | 0 | 0 | 5.0 | |
| Children's Services | 2708 | Education Improvement Service | Complete | Full Assurance | 0 | 1 | 0 | 0 | 15.0 | |
| HR, Legal & Communications | 2709 | Employee Benefits | Complete | Substantial Assurance | 1 | 1 | 0 | 0 | 10.0 | |
| HR, Legal & Communications | 2710 | Employee Therapy Services | Not Started | | | | | | 7.0 | 6.7 |
| Adults & Health | 2711 | Fuel Poverty Reduction | Draft | | | | | | 7.0 | 0.0 |
| Economic Growth & Development | 2712 | Highways Maintenance Management | Not Started | | | | | | 10.0 | 9.8 |
| Community Services | 2713 | Horticultural Services & Allotments | In Progress | | | | | | 15.0 | 0.0 |
| DBC Only | 2714 | Housing Building Maintenance | Complete | < None > | 0 | 0 | 0 | 0 | 25.0 | |
| DBC Only | 2715 | Housing Management | In Progress | | | | | | 20.0 | 0.0 |
| DBC Only | 2716 | Housing Rents | Complete | < None > | 0 | 0 | 0 | 0 | 15.0 | |
| Democratic & Licensing | 2717 | Licensing | In Progress | | | | | | 30.0 | 16.1 |
| Corporate | 2718 | Information Management | Not Started | | | | | | 10.0 | 10.0 |
| DBC Only | 2719 | Mayor's Charity Fund | Under Review | | | | | | 2.0 | 0.5 |
| Corporate | 2720 | Performance Management Framework | Not Started | | | | | | 15.0 | 15.0 |
| Corporate | 2721 | Anti-Fraud Management | In Progress | | | | | | 35.0 | 32.3 |
| Corporate | 2722 | Business Continuity & Emergency Planning | Ready to Start | | | | | | 10.0 | 9.3 |
| Corporate | 2723 | Council Plans | Not Started | | | | | | 5.0 | 5.0 |
| Corporate | 2724 | Financial Management | Not Started | | | | | | 5.0 | 5.0 |
| Community Services | 2725 | Registration & Bereavement Services | Not Started | | | | | | 15.0 | 5.9 |
| Children's Services | 2726 | Safeguarding Children | In Progress | | | | | | 15.0 | 8.4 |
| Corporate | 2727 | Scheme of Delegation | Cancelled | | | | | | 15.0 | 15.0 |
| Xentrall | 2728 | Software Controls | Complete | Full Assurance | 0 | 0 | 0 | 0 | 10.0 | |
| Finance & Business Services | 2729 | Stockton Collections | Complete | Full Assurance | 0 | 1 | 0 | 0 | 5.0 | |
| Children's Services | 2730 | Tees Valley Music Service | Complete | Moderate Assurance | 0 | 4 | 5 | 0 | 10.0 | |
| Economic Growth & | 2731 | Traffic Management & Road Safety | Complete | Substantial | 3 | 2 | 0 | 0 | 15.0 | |

| Development | | | | Assurance | | | | | | |
|---------------------|------|------------------------------------|--------------|-----------------------|---|---|---|---|-------|------|
| Children's Services | 2732 | Troubled Families Initiative | In Progress | | | | | | 20.0 | 3.2 |
| Contingency | 2733 | Advice and Guidance | Complete | < None > | 0 | 0 | 0 | 0 | 50.0 | |
| Contingency | 2734 | Audit Liaison and Planning | Complete | < None > | 0 | 0 | 0 | 0 | 20.0 | |
| Contingency | 2736 | Continuous Monitoring | In Progress | | | | | | 200.0 | 40.5 |
| Contingency | 2737 | Grants Contingency 2019 | Complete | Full Assurance | 0 | 0 | 0 | 0 | 30.0 | |
| Schools | 2738 | SBC Schools - IR35 Self Assessment | In Progress | | | | | | 0.0 | 0.0 |
| DBC Only | 2739 | DBC Schools - IR35 Self Assessment | In Progress | | | | | | 0.0 | 0.0 |
| Schools | 2740 | Schools - High Clarence Primary | Under Review | | | | | | 0.0 | 0.0 |
| Corporate | 2741 | Globe Project Assurance | Complete | Substantial Assurance | 0 | 0 | 2 | 2 | 0.0 | |
| Contingency | 2742 | Risk Management | Complete | < None > | 0 | 0 | 0 | 0 | 35.0 | |
| Contingency | 2743 | Procurement/Contract Management | Complete | < None > | 0 | 0 | 0 | 0 | 62.0 | |
| Contingency | 2744 | ICT Individual Systems | In Progress | | | | | | 66.0 | 46.3 |
| < None > | 2745 | Schools - Harrowgate Hill Primary | Complete | < None > | 0 | 0 | 0 | 0 | 0.0 | |

2.5 Trend Analysis

