

# Thurrock Council

Annual Internal Audit Report - Year ended 31 March  
2015

Presented at the Audit Committee meeting of:  
16th July 2015

Baker Tilly Risk Advisory Services LLP

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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# 1. Introduction

In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.

This is achieved through a risk-based plan of work, agreed with management and approved by the Standards & Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. As such, the assurance framework is one component that the board takes into account in making its annual governance statement (AGS).

The AGS is an annual statement by the Accountable Officer, on behalf of the Council, setting out:

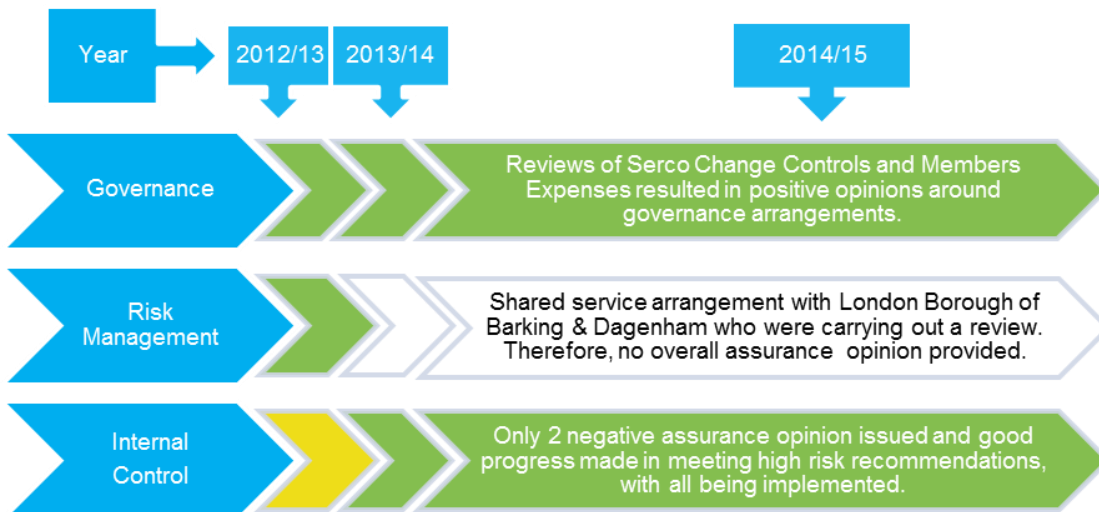
- How the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- The purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the assurance framework process; and
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

## 2. The Head of Internal Audit Opinion

The purpose of our annual Head of Internal Audit Opinion is to contribute to the assurances available to the Section 151 Officer and the Council through the Standards & Audit Committee. This opinion will in turn assist the Council in the preparation of its annual governance statement.

For the 12 months ended 31 March 2015, based on the work we have undertaken, our opinion below details the adequacy and effectiveness of your organisation's risk management, internal control and governance arrangements. We also show below the direction of travel of our opinions.

Further detail supporting our opinion can be found over the page.



## 2.1 The basis of our opinion

Based on the work we have undertaken on Thurrock Council's system of internal control we do not consider that within these areas there are any issues that need to be flagged as significant internal control issues within the AGS.



### Governance

During the year, we carried out an audit of Members' Allowances. This review looked at the payments members received to ensure they were in line with the Members' Allowance Scheme which was reviewed by an independent remuneration panel in 2011. After taking account of the recommendations made by the panel, the Council decided to implement any increases and reductions in its allowances on a phased basis up to 2015, when they would be at the level recommended by the panel. We were able to provide a green assurance opinion with one medium recommendation around a member receiving a second allowance which they had been informed they were entitled to but were not.

We also carried out an advisory review around the governance and management of the process by which the Council actions change controls submitted by their strategic partner (Serco). The review identified a number of issues around the lack of clarity and documentation to support additional charges for items not covered by the original contract. As a result, the Council sought improvements which have positively enhanced the governance and control environment and provide a clearer audit trail to support the change control process.

The Council continues to face challenges to meet the savings it is required to make. It has looked at options to improve services and reduce costs through partnership working with other local authorities and through contractual arrangements with its strategic partner (Serco). It has also had to implement a programme of voluntary redundancies. These decisions were discussed with and agreed by officers and members and indicate that governance continues to be robust.

### Risk Management

The Insurance & Risk Management team operate under a shared service arrangement with the London Borough of Barking & Dagenham (LBBB). As part of our planning process for 2014/15, we held discussions with their internal audit team and were informed that a review of the Risk Management Strategy and Policy across both Councils was undertaken in March 2014. There were minor changes to both documents. Therefore, to prevent duplication of work, we did not undertake a review of risk management. As a result of the review carried out by LBBB and our work during the year, nothing has been brought to our attention which suggests the Council needs to be concerned around the risk management environment.

**Control**

During the year, we issued a total of 33 assurance reports as final. 31 of these reports received positive assurance opinions. 2 were issued with red (negative) assurance opinions. These were Bridge Maintenance Inspections and Adoption (Assessments & Payments, including Special Guardianship and Residence Order Payments). Management has reacted positively to these reports. A recovery plan has been developed to address the lack of bridge inspections and strength assessments and ensure, moving forward, that Principal Inspections are carried out in line with best practice. In respect of the Adoption report, changes have been made to improve the checking and monitoring processes for special guardianship and residence order payments to ensure they are stopped at the correct time, which should help prevent further overpayments from occurring.

A summary of internal audit work undertaken, and the resulting opinions, is provided at appendix A.

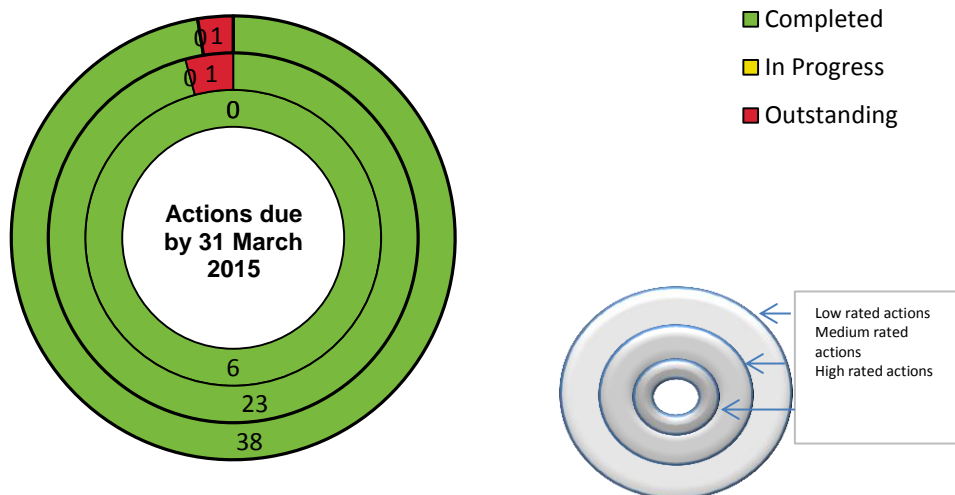


## 2.2 Acceptance of 2014/2015 Internal Audit recommendations

All of the recommendations made during the year were accepted by management.

## 2.3 Implementation of internal audit recommendations

Our follow up of the recommendations from previous years and current audit assignments, showed that the organisation had made good progress in implementing the agreed actions.



During the year, all of the high level recommendations that had reached their implementation date had been actioned. In addition, 22 of the 23 medium recommendations had been implemented and management assurances were provided that 37 of the 38 low recommendations were completed.

## 2.4 Reliance placed upon work of other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

## 3. Our performance

### 3.1 Wider value-adding delivery

As part of our client service commitment, during 2014/15 we issued 11 news bulletins to our local authority clients.

During 2014/15, the Internal Audit team provided significant resources and knowledge in assisting the client with a number of key investigations involving current employees, or staff employed elsewhere who were working for the Council. Details of these are as follows:

- As a result of some concerns the London Borough of Havering had raised on the management of the School's Catering Contract, which they managed on behalf of Thurrock Council under a service level agreement, a joint review was initiated across both Councils. It was identified, over a period that covered several years, that financial procedures had not been complied with in the awarding of contracts for works and services. All of the evidence was passed to Havering, as the employing authority, who undertook interviews with relevant staff. As a result, all of the management providing the service resigned. Due to poor record keeping, it was not possible to prove that financial impropriety had taken place. As a result of the above, Havering could no longer continue to provide the service. Management of the service was brought back in-house and the Council appointed a permanent Catering Manager.
- We were asked to carry out an internal investigation following allegations by a member of staff that suggested managers may have been misappropriating cash. The managers were temporarily suspended so the work was considered urgent. We provided assistance to the service by reviewing the income collection process and analysing data on Oracle. As a result, nothing was found to substantiate the accusations and the service resolved the issue internally.
- Under the whistleblowing procedures, an accusation was made that a member of staff was working whilst signed off sick. We were asked to investigate and further checking revealed the employee was listed as a Director of a company providing training services and had not declared this in line with the Officers' Code of Conduct. We were involved in gathering the information and provided the service and HR with a report on our findings. As a result, disciplinary proceedings were initiated. The member of staff resigned before the proceedings were completed.
- We continued to provide the co-ordinating role for the National Fraud Initiative by setting up and providing assistance with the Council's nominated contacts to enable them to access the database and submit relevant data. Data matches were identified and the services were contacted to get them to investigate in their areas.



### **3.2 Conflicts of interest**

We Baker Tilly have not undertaken any work or activity during 2014/15 that would lead us to declare any conflict of interests.

### **3.3 Conformance with internal auditing standards**

Baker Tilly affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our Risk Advisory service line commissioned an external independent review of our internal audit services in 2011 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that “the design and implementation of systems for the delivery of internal audit provides substantial assurance that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner”.

### 3.4 Performance indicators

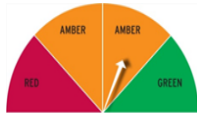





Our performance during 2014/2015 is summarised below across a range of performance indicators.






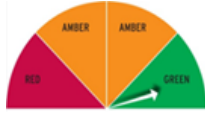
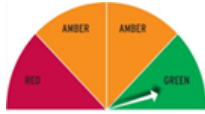
Delivery	Quality			Notes (ref)	Target	Actual	Notes (ref)
	Target	Actual	Notes (ref)				
Audits commenced in line with original timescales	Yes	No	1	Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit.	Yes	Yes	
Draft reports issued within 10 days of debrief meeting	90%	80%	2	% of staff with CCAB/IIA qualifications	>50%	40%	4
Management responses received within 10 days or draft report	80%	64%	3	Turnover rate of staff	<10%	0%	
Final report issued within 5 days of management response	90%	89%		Response time for all general enquiries for assistance (2 working days)	100%	100%	
% of High & Medium recommendations followed up	95%	97%		Response for emergencies and potential fraud (1 working day)	100%	100%	

#### Notes

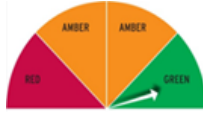
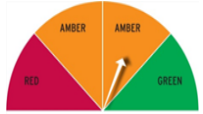

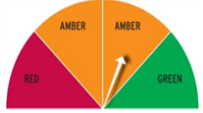



1. Some reviews deferred by client due to significant changes to the organisational structure and budget cuts.
2. Main reason for delay was involvement of Audit Manager on internal investigations (see 3.1 above).
3. Number of issues contributed to poor performance which included: major departmental restructures, staff redundancy; annual leave etc. Regular chasing took place to try to improve response rate. Audit Protocol and escalation process now in place.
4. Head of Internal Audit (CIPFA) and Audit Manager (PIIA and AAT).

## Appendix A: Internal Audit Opinion and Recommendations 2014/2015

Assignment	Executive lead	Opinion	Actions agreed		
			H	M	L
<p><b>Contract Review (Manor School – now Tilbury Pioneer Academy)</b> - A lack of budget and contract management may result in an over or under spend and a failure to achieve value for money.</p>	Director of Children’s Services		0	3	0
<p><b>St Thomas of Canterbury RC Primary School</b> - The operational and financial management arrangements in Secondary and Primary Schools may be inadequate increasing the risk of impropriety.</p>	Director of Children’s Services		0	2	2
<p><b>Performance Management - Key Performance Indicators</b> - If key performance indicators are not correctly or accurately recorded, decisions may be being made based on inaccurate information.</p>	Assistant Chief Executive	Advisory	2	1	0
<p><b>Little Thurrock Primary School</b> - The operational and financial management arrangements in Secondary and Primary Schools may be inadequate increasing the risk of impropriety.</p>	Director of Children’s Services		0	3	3
<p><b>Stifford Clays Primary School</b> - The operational and financial management arrangements in Secondary and Primary Schools may be inadequate increasing the risk of impropriety.</p>	Director of Children’s Services		0	3	0
<p><b>Deneholm Primary</b> - The operational and financial management arrangements in Secondary and Primary Schools may be inadequate increasing the risk of impropriety.</p>	Director of Children’s Services		0	1	2
<p><b>Community Hubs</b> - Failure to locate and site the Hubs in areas where they provide the most benefit to the community could result in a lost opportunity to provide a central point of contact and assist local residents.</p>	Assistant Chief Executive		0	1	2

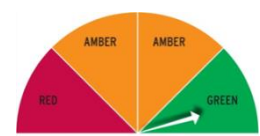
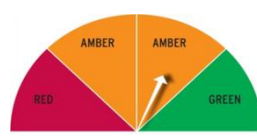
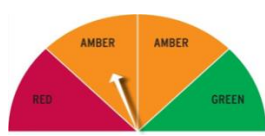
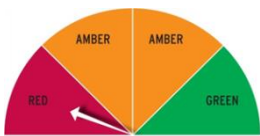
Assignment	Executive lead	Opinion	Actions agreed		
			H	M	L
<p><b>Leaseholder Charges</b> - Charges made to leaseholders for services provided may not be reasonable or in line with guidance resulting in the Council failing to recover costs of repairs.</p>	Director of Housing		0	2	1
<p><b>Charges for Non-Residential Services (Adults)</b> - The Council's charging arrangements may not be maximising income potential through the setting of fair and transparent fees for services resulting in the need to divert funds from other areas to support escalating costs.</p>	Director of Adults, Health and Commissioning		0	2	0
<p><b>Environmental Health (Pollution Control)</b> - Non-Compliance with the regulator's (DEFRA) pollution guidelines may result in non-compliance with regulations. Inspections may not be carried out, which could result in a higher risk of Industrial Pollution and potential health implications to the local community.</p>	Head of Environment		0	1	0
<p><b>Thurrock Registrars Office</b> - The Council may not comply with new legislation resulting in increased external scrutiny by the Cabinet Office. Income may not be controlled or monitored. Expenditure may not be appropriate or legitimate.</p>	Head of Legal Services		0	1	2
<p><b>Procurement Cards</b> – Failure to properly authorise, control and monitor the setting up of cards could result in inappropriate expenditure not being identified and challenged</p>	Head of Corporate Finance		1	2	3
<p><b>Public Health</b> - Failure to manage, monitor and report on new health projects could lead to poor prioritising and use of limited resources.</p>	Director of Adults, Health and Commissioning		0	0	1
<p><b>Econogas</b> - Council properties may not be inspected in accordance with legislation and/or policy.</p>	Director of Housing		0	0	4

Assignment	Executive lead	Opinion	Actions agreed		
			H	M	L
<p><b>Sickness Management</b> – Long and short term sickness may not be recorded, monitored or acted upon in a timely manner.</p>	Head of HR, OD & Customer Strategy		0	2	1
<p><b>LiquidLogic Adults System (LAS)</b> - Lack of control in business area could result in data being accessed by unauthorised persons.</p>	Director of Adults, Health and Commissioning		0	3	3
<p><b>Change Control Process (Serco)</b> - If there is not a formal, open process to action change controls with the strategic partner, the Authority could incur additional charges which may not be due or merited.</p>	Director of Housing		1	1	1
<p><b>Bridge Maintenance Inspections</b> - There is adequate inspection and maintenance regime in place which ensures the safety, integrity and adequacy of structures within the highway for use by the public.</p>	Director of Planning and Transportation		2	3	0
<p><b>Electrical Testing (Housing)</b> - Regular inspections may not be undertaken in accordance with legislative and Council requirements.</p>	Director of Housing		1	0	2
<p><b>Troubled Families Programme</b> - Review requested following external spot checks which identified a lack of supporting evidence.</p>	Director of Children's Services	Advisory	8	2	0
<p><b>Asset Register</b> – The identification and recording of assets may not be accurate and up to date.</p>	Head of Corporate Finance		0	1	1
<p><b>Adoption (Assessments &amp; Payments, including Special Guardianship and Residence Order Payments)</b> - The assessment and payments made to adopters and other third parties may not be appropriate and in accordance with Regulations.</p>	Director of Children's Services		3	3	0

Assignment	Executive lead	Opinion	Actions agreed		
			H	M	L
<b>Members Allowances</b> - Payment of Members' Allowances may not be made in line with Thurrock Council's Members' Allowances Scheme.	Head of Legal Services		0	1	1
<b>Extra Care</b> - Concerns raised by the Head of Adult Services and the Service Manager – Provider Services after a visit to one of the Extra Care sites to carry out a safe audit.	Director of Adults, Health and Commissioning	Advisory	5	3	0
<b>Building Control</b> - The Building Control Service may not be meeting the needs of its customers by providing an effective, efficient and economical service.	Director of Planning and Transportation		0	4	0
<b>Housing Benefits</b> - Failure to ensure accurate and timely processing and payment of Housing Benefit to eligible claimants could result in incorrect payments being made or financial hardship for the claimant.	Head of Corporate Finance		0	0	6
<b>General Ledger</b> - The Council's financial system may not be appropriately managed to so financial transactions may not be accurately recorded.	Head of Corporate Finance		0	0	1
<b>Cash Receipting</b> - Cash collection procedures, banking, access arrangements and security of cash received may not be adequately controlled.	Head of Corporate Finance		0	3	1
<b>Bank Reconciliation</b> - If regular reconciliations are not carried out, errors may not be picked up in a timely manner.	Head of Corporate Finance		0	0	1
<b>Payroll</b> - Payroll documentation may not be processed in accordance with agreed procedures resulting in incorrect or inappropriate payments being made.	Head of HR, OD and Customer Strategy		0	1	3
<b>Treasury Management</b> - If controls around the payment and reconciliation processes are not robust, the Council may not achieve the best return on its investments.	Head of Corporate Finance		0	0	1

Assignment	Executive lead	Opinion	Actions agreed		
			H	M	L
<p><b>Housing Rents</b> - There may not be adequate systems and procedures in place relating to the administration and management of the rents process.</p>	Director of Housing		0	2	1
<p><b>Council Tax</b> - Records and Accounts may not be updated to record new and amendments to properties. Liability may be incorrectly assessed and calculated. Billing might not be carried out in accordance with procedures and reconciliations to may not be carried out to confirm accuracy of the billing run. Checks and reconciliations to agree income collected, refunds made and housing benefit postings might not be undertaken.</p>	Head of Corporate Finance		0	1	1
<p><b>National Non Domestic Rates (NNDR)</b> - The Council's NNDR systems and processes in respect of property valuations may not comply with all statutory requirements resulting in inaccurate billing, failure to recover overdue debts and insufficient documentary evidence to support all payment transactions.</p>	Head of Corporate Finance		0	1	0
<p><b>Accounts Payable</b> - Purchase Orders may not be raised. Invoices may not be paid correctly and promptly. Insufficient checks and reconciliations may be carried out. Access to the Accounts Payable system may not be restricted.</p>	Head of Corporate Finance		0	1	3
<p><b>Accounts Receivable</b> - Poor controls around the administration and management of debt could result in lost income to the Council.</p>	Head of Corporate Finance		0	1	2

We use the following levels of opinion classification within our internal audit reports



Taking account of the issues identified, the Board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.

Taking account of the issues identified, whilst the Board can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.

Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.

Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.





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