Date of meeting	**Monday, 16th February, 2015**
Time	**7.00 pm**
Venue	**Training Room 1 - Civic Offices, Merrial Street, Newcastle-under-Lyme, Staffordshire, ST5 2AG**
Contact	Julia Cleary

Audit and Risk Committee

AGENDA

PART 1 – OPEN AGENDA

1   Apologies

2   DECLARATIONS OF INTEREST

To receive Declarations of Interest from Members on items included in the agenda

3   MINUTES OF PREVIOUS MEETINGS   **(Pages 3 - 6)**

To consider the minutes of the previous meeting.

**4   Corporate Risk Management Report For the Period October to   (Pages 7 - 14)
       December 2014**

5   Certification Work Report 2013/2014   **(Pages 15 - 20)**

**6   Adoption of Internal Audit High Risk Recommendations and   (Pages 21 - 30)
       Summary of Assurance**

7   Internal Audit Progress Report   **(Pages 31 - 42)**

8   Internal Audit Plan   **(Pages 43 - 60)**

9   URGENT BUSINESS

To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972

Members: Councillors Loades, Taylor.J (Chair), Allport (Vice-Chair), Mrs Burgess, Jones, Sweeney and Mrs Hambleton

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PLEASE NOTE: The Council Chamber and Committee Room 1 are fitted with a loop system. In addition, there is a volume button on the base of the microphones. A portable loop system is available for all other rooms. Should you require this service, please contact Member Services during the afternoon prior to the meeting.

Members of the Council: If you identify any personal training/development requirements from any of the items included in this agenda or through issues raised during the meeting, please bring them to the attention of the Democratic Services Officer at the close of the meeting.

<u>Meeting Quorums :-</u> 16+= 5 Members; 10-15=4 Members; 5-9=3 Members; 5 or less = 2 Members.

Officers will be in attendance prior to the meeting for informal discussions on agenda items.

AUDIT AND RISK COMMITTEE

Monday, 17th November, 2014

Present:-   Councillor John Taylor – in the Chair

Councillors   Loades, Allport, Mrs Burgess, Jones and Sweeney

8.   **APOLOGIES**

Apologies were received from Councillor Mrs Hambleton

9.   **DECLARATIONS OF INTEREST**

There were no declarations of interest stated.

10.   **MINUTES OF PREVIOUS MEETINGS**

Resolved:-   That the minutes of the meeting held on 29 September, 2014 be agreed as a correct record.

11.   **CORPORATE RISK MANAGEMENT JULY TO SEPTEMBER 2014**

The Head of Business Improvement, Central Services and Partnerships provided members with an overview of the report.

A risk report and action plan was attached to the report. Members were advised that the risk attached to fees and charges had now reduced and, as a result would not appear of the next list as it only contained the top line risks.

No additional medium or high risks had been added to the register during this quarter.

Members discussed the items contained in the risk report and made observations. A query was raised as to how assets (stock) could be a risk when professionals were employed to manage them. The reason for this was that one incident could turn into a major claim.

In addition, fraud wasn't on the list as a risk.

Members were advised that certain 'risks' were not in the report as their score was below 7-9. The Council has policies in place to identify the scores for each risk.

Resolved:-   (i)   That the comments regarding the progress made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers be noted.

12.   **HEALTH AND SAFETY 6 MONTHLY REPORT**

Consideration was given to a report informing Members of issues and trends regarding health and safety at the Council. The health and safety report covering April to September, 2014 was appended to the report.

There had been a reduction (in comparison to this time last year) in the number of days lost due to accidents at work.

Members requested clarification of Target 100. The actions are scored and when a programme is in place and the targets reach 100% it is seen as complete. If it does not reach 100% it would be looked at by Internal Audit.

Resolved:-   That the report be noted.

13.   **TREASURY MANAGEMENT HALF YEARLY REPORT**

Members considered a report on the Treasury Management Half Yearly report for 2014/15 which was appended to the report.

The Staffordshire Pension Fund had been reviewed. The lump sums payable by the Council were listed for the next three years and Members were informed that if the amounts were pre-paid, a discount would be given offering a significant saving.

Resolved:-   That the Treasury Management Half Yearly Report for 2014/15 be received.

14.   **ANNUAL AUDIT INSPECTION LETTER**

The Annual Audit Letter from the council's external auditors, Grant Thornton had been received and was appended to the report.

Resolved:-   That Grant Thornton's Annual Audit Letter be received an a copy sent to all elected members.

15.   **ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE**

A report was considered on high risk recommendations and summary of assurance for July to September, 2014. The Audit Recommendations were appended to the report.

High risk recommendations mean that action is imperative to ensure that the authority is not exposed to high risks. The recommendation has to be agreed with managers and must be carried out within one month.

Resolved:-   That the actions of the officers and levels of assurance be noted.

16.   **INTERNAL AUDIT PROGRESS REPORT QUARTER 2**

Members considered a report In the Internal Progress for Quarter 2, 2014/15.

The Performance Indicator recommendations were currently 92% against a target of 96% giving a good indication that managers were responding and implementing the recommendations made.

Members' attention was drawn to the Information Governance Toolkit draws together legal rules and central guidance to provide a single standard set of information governance requirements.

Resolved:- That the Treasury Management Half Yearly Report for 2014/15 be received.

17. **URGENT BUSINESS**

There was no urgent business.

COUNCILLOR JOHN TAYLOR
Chair

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<u>**REPORT OF THE EXECUTIVE MANAGEMENT TEAM**</u>
<u>**TO THE AUDIT AND RISK COMMITTEE**</u>

<u>**16 February 2015**</u>

<u>**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD October to December 2014**</u>

<u>**Submitted by:**</u>　　　**Head of Business Improvement, Central Services and Partnerships**

<u>**Portfolio:**</u>　　　**Communications, Policy and Partnerships**

<u>**Ward(s) affected:**</u>　　**All**

<u>**Purpose of the Report**</u>

To inform Members of the progress made by the Council in enhancing and embedding risk management for the period October to December 2014, including progress made in managing identified corporate risks.

<u>**Recommendations**</u>

The Committee is asked to:-

　(a) **Scrutinise the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers, where applicable**

　(b) **Note the new risks that have been identified between October to December 2014**

　(c) **Identify, as appropriate, individual risk profiles to be scrutinised in more detail at the next meeting of the Committee**

　(d) **Note the report showing the overdue risks and the reason for the delay**

　(e) **Note the report showing risk rating changes**

<u>**Reasons**</u>

The risk management process previously adopted by the Council has been reviewed to incorporate changes in the way the Council works and to provide continuity and streamlined reporting of risks to allow the process to become further embedded at each level of the authority. This will also aid the identification of key risks that potentially threaten the delivery of the Council's corporate priorities. The Risk Management Strategy provides a formal and proportionate framework to manage these identified risks and thus reduce the Council's exposure.

1.　　**Background**

1.1　　The Council monitors and manages all its risks through the various risk profiles contained within GRACE (Governance Risk and Control Environment) – the Council's software used to record and manage risks.

1.2 The Council currently reviews its high (red 9) risks at least monthly and its medium (amber) risks at least quarterly.

1.3 The last review of these risks was reported to the Council's Audit & Risk Committee in November 2014.

1.4 Risk owners are challenged by the Council's Risk Champions in respect of the controls, further actions, ratings and emerging risks related to their risks, and are also challenged on the reasons for inclusion or non-inclusion and amendment of these.

1.5 Projects are managed to a high level in relation to risk and are reviewed in accordance with the Risk Management Strategy (i.e. monthly).

2. **Issues**

2.1 Further to an Audit Assurance recommendation, your officer has been asked to report on overdue risk reviews that are 6 months out of date.

2.1.1 At the time of the running report, there were 4 overdue risks. For transparency Appendix A shows those risks that were previously overdue, the due date, actual review date and the reason for the delay.

2.1.2 The risks listed are the current medium risks that fall below those reported as Medium 7 and 8, and High 9 ratings, however there is a likelihood that they may increase due to their nature and potentially an event occurring.

2.1.3 This Committee is now asked to note these risks.

2.2 Following a further meeting with the Chair, a request was made that a report was produced to show any risks where the risk level has increased.

2.2.1 Your officer can report that there have been no risk level increases during the October to December 2014, however there were 18 new risks that fell into the Medium Amber ratings and can be categorised as follows: 3 x medium amber 6 rating; 12 x medium amber 5 rating and 3 x medium amber 3 rating.

2.2.2 Should there be any increase during January to March 2015 these will be reported to the next Committee meeting.

3. **Strategic, Operational, Project and Partnership Risk Registers (Appendices)**

3.1 The Council regularly reviews and refreshes its risk registers in accordance with the Risk Management Strategy.

3.2 These reviews are co-ordinated by the Strategic Risk Champion who works closely with Directors, Operational Risk Champions and Risk Owners.

3.3   The risk map below shows the descriptions of the ratings, for ease of use.

L I K E L I H O O D	High 3	7 Amber	8 Amber	9 High Red
	Medium 2	4 Green	5 Amber	6 Amber
	Low 1	1 Green	2 Green	3 Amber
		Low 1	Medium 2	High 3
IMPACT				

3.4   During this quarter there have been no additional risks added of a final rating of medium (risk scores of 7 or 8) or high (risk score of 9).

3.5   There has however, been a reduction of one medium 8 risk in relation to Inability to implement outcomes from the Stock Condition Survey due to lack of finance (Asset Management Strategy).

3.6   After a challenge with the relevant officer it has been agreed that the existing controls that have been implemented since the last review provide confidence that the risk is in control. The controls listed as extra to mitigate the risk include the annual asset management review; stock condition survey updated; council's Tranche 2 land sale approved by Cabinet.

3.7   This risk will also be removed from the next quarter report.

3.8   Appendix B now highlights the risks that fall into the top line of the above risk map.

4.   Issues from last meeting

4.1   It is noted that the risk of fraud no longer appears on Appendix B but Members can be assured that this is managed over various profiles and in every aspect of your officer's daily work. Should there be an incident that arises, it will be dealt with in accordance to Council's relevant policies and procedures.

5.   Outcomes Linked to Corporate and Sustainable Community Priorities

5.1   Good risk management is a key part of the overall delivery of the Council's four corporate priorities of:

- Borough of Opportunity
- A Clean, Safe and Sustainable Borough
- A Healthy and Active Community
- Becoming a Co-operative Council, which delivers high quality, community-driven services

6.   Legal and Statutory Implications

6.1 The Accounts and Audit (England) Regulations 2011, state that:

*"The relevant body **is** responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control, which facilities the effective exercise of that body's functions and which includes arrangements for the management of risk"*

7. **Equality Impact Assessment**

7.1 There are no differential equality impact issues in relation to this report.

8.1 **Financial and Resource Implications**

8.1 None where actions are to be taken in order to mitigate the risks as these will be met from within existing budgets. Where this is not possible, further reports will be submitted to Members.

9. **List of Appendices**

Appendix A
Appendix B

10. **Background Papers**

None

<div style="text-align: right">**Appendix A**</div>

Risk	Profile	Date Due	Actual Review Date	Reason for Delay	Profile Owner	Final Rating
Inability to secure appropriate purchasee or tenant for the building	Refurb & Repair St Giles & St Georges School	16/09/13 00:00	28/01/15 00:00	This risk is mitigated by the Council's decision to identify the site as the preferred location for a potential re-provision of the Council's Civic Offices. This would be in the event that the Ryecroft development proceeds (and subject to a full business case).	Economic Development Officer	6
Failure to deliver necessary planning decisions on strategically significant regeneration projects	Development Management	01/05/14 00:00	28/01/15 00:00	This risk is being reviewed in the context of the approved Action Plan prepared in response to the recent Peer Review of the Planning Service	Head of Planning Services	6
Failure to put into place CIL by April 2015	Planning Policy	01/05/14 00:00	28/01/15 00:00	This risk was delayed being reviewed in light of the emerging Local Plan, national guidance and the likely need for expert Counsel's opinion	Head of Planning Services	6

Termination of Partnership arrangement and requirement upon Borough Council to provide services at short notice	Building Control	12/06/14 00:00	28/01/15 00:00	This risk review was delayed due to agreeing an extension to the current arrangement until July 2016 with the City Council, whilst a review of the service is undertaken in liaison with both of the other Building Control Partnerships in Staffordshire.	Head of Planning Services	6

	High 9 risks
	Medium 7 & 8 risks
	Risks to be deleted from next 1/4 profile
	Risk reduced from last 1/4 profile
	New risks

Appendix A Risks and Action Plan **Risk Identified**	**Risk Owner**	**Action Required to Address Risk** in order to reduce the risk	**Target Date** for action completion	**Risk Category** Strategic, Operational, Project	**Current position / progress** as at 26/01/2015	**Status** as at June 14	**Status** as at Sept 14	**Current Rating** as at Dec 14
1	Potential Claims growth	Chief Executive	The Council has robust systems in place both to deal with claims when they happen and also to prevent, where possible, the circumstances where claims could arise. In doing so, the Council has in place policies and procedures designed to enhance safety at work and also to advise staff and others when driving or operating machinery. The Council checks, on a regular basis, that it is up to date on best practice in this area and that systems reflect changes in the local, national or international environments		Strategic	Risks reviewed and noted that this area is of growing significance with the number and value of claims increasing. Further actions reviewed. Consideration was given to potential control measures, but these are addressed by the existing further actions.	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9

Appendix B

Appendix A Risks and Action Plan **Risk Identified**		Risk Owner	Action Required to Address Risk in order to reduce the risk	Target Date for action completion	Risk Category Strategic, Operational, Project	Current position / progress as at 26/01/2015	Status as at June 14	Status as at Sept 14	Current Rating as at Dec 14
2	Members not adhering to Officers advice	Resources & Support Services	Planning Peer Review Action Plan approved including a timetable for implementation, included training programme for elected members.	Throughout the year	Strategic	Action Plan due for complete implementation and review by Cabinet in July 2015 but monitored on a monthly basis.	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9
3	Inability to implement outcomes from the Stock Condition Survey due to lack of finance (Asset Management Strategy)	Regeneration & Development	Corporate capital programming is to be undertaken as part of the work of the Assets Review Group, seeking to identify investment needs over a 3-5 year period to promote the same on a prioritised basis.	Jan-15	Operational	The outcome report has been received by the Capital Programme Review Group. The urgent items are covered by the 3 year Capital Works Programme and this should allow for the repairs to be undertaken. There is however an annual review of the Works Programme to assess if there is a need to change priorities.	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 2 Medium 5

CERTIFICATION WORK REPORT 2013/14

Submitted by: Executive Director – Resources and Support Services

Portfolio: Finance and Resources

Ward(s) affected: Non Specific

Purpose of the Report

To receive Grant Thornton's Annual Report in respect of the Certification of Claims for the Borough Council for 2013/14.

Recommendation

That Grant Thornton's Annual Report on the Certification of Claims be received.

Reasons

Funding from government grant – paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to auditors that it has met the conditions which attach to these grants.

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1.   **Background**

1.1   Grant Thornton's report (attached as an Appendix) summarises the findings from the certification of 2013/14 claims.

1.2   External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources.

2.   **Issues**

2.1   There are no actions or recommendations arising from the report.

3.   **Options Considered**

3.1   The report is based on information and evidence supplied by officers and has been through a process of quality control. To challenge the report is therefore not a feasible option.

3.2   The report should be received.

4.   **Proposal**

4.1   To receive Grant Thornton's report on the Certification of Claims.

5.	**Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

The external audit function gives assurance on the stewardship of public resources. These reports provide external challenge to the Council through which can be demonstrated improvement in relation to the Corporate Priority of "Becoming a co-operative council which delivers high quality, community-driven services".

6.	**Legal and Statutory Implications**

This report raises no new statutory or legal implications.

7.	**Equality Impact Assessment**

There are no differential equality impact issues identified.

8.	**Financial and Resource Implications**

There are no additional financial or resource implications arising from this report.

9.	**Major Risks**

There are no additional risks identified by the report.

10.	**List of Appendices**

Appendix – Certification Work Report 2013/14 – January 2015.

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DX 13174 Birmingham
www.grant-thornton.co.uk

9th January 2015

Dear Kelvin

Certification work for Newcastle under Lyme Borough Council for year ended 31 March 2014

We are required to certify certain claims and returns submitted by Newcastle under Lyme Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

We have certified one claim for the financial year 2013/14 relating to expenditure of £30.57 million. Further details of the claims certified are set out in Appendix A.

There are no issues arising from our certification work which we wish to highlight for your attention. We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claim for audit certification.

The indicative fee for 2013/14 for the Council is based on the final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. The fees for certification of housing benefit subsidy claims have been reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. The indicative scale fee set by the Audit Commission for the Council for 2013/14 is £10,736. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2013/14

Claim or return	Value	Amended?	Amendment	Qualified?	Comments
Housing benefits subsidy claim	£30,568,730	No	0	Yes	Initial testing identified a small number of under & overpayments of benefits. Subsequent testing found these errors had not been repeated. An issue arose in the prior year with the application of tax credits. Additional testing in 2013/14 identified a small number of cases where this was still the case. Work completed was reported by 28 November 2014 as required by the certification instruction.

Appendix B: Fees for 2013/14 certification work

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	9,407	10,736	10,736	1,329	Increase in fee due to the increased work required because of the error rate in the claim.
National non-domestic rates return (NNDR3)	1,950	N/A	N/a	-1,950	No requirement to certify this return in 2013/14
Total	11,357	10,736	10,736	-621	

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Classification: NULBC **UNCLASSIFIED**

<u>**HEADING**</u>	<u>***QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 October TO 31 December 2014***</u>

<u>**Submitted by:**</u>   Audit Manager

<u>**Portfolio**</u>   Finance and Resources

<u>**Ward(s) affected**</u>   All

<u>**Purpose of the Report**</u>

To report on any outstanding high risk recommendations to the Audit and Risk Committee on a quarterly basis and where necessary to request Members' approval to the Executive Directors requested actions in respect of the recommendations and proposed target dates.

To provide Members with an assurance opinion on internal controls over Council Services.

<u>**Recommendations**</u>

That the action of your officers and levels of assurance be noted

<u>**Reasons**</u>
High risk recommendations are those agreed with management that are key controls in providing assurance as to the efficiency and effectiveness of the system, service or process under review. By agreeing to prolong target dates Members are accepting the risk of not implementing the control. Delayed implementation of such controls should be challenged to identify reasons behind this and solutions to the delay. Delays may be a result of external or internal influences, lack of resources or inertia. Such delays in the implementation of recommendations will affect the assurance opinion provided on each Service.

---

1. <u>**Background**</u>

1.1 High risk recommendations are those where action is considered imperative to ensure that the authority is not exposed to high risks and to do this it needs to be implemented within 1 month of the recommendation being agreed with managers.

1.2 Recommendations are reported to committee on an exception basis, i.e. reports where high risk recommendations have been followed up with Managers on more than two occasions are brought to the attention of Members. In addition the Chair and Vice Chair receive exception reports quarterly where high risk recommendations have been followed up with Managers after the initial implementation date has expired.

1.3 With the production of the Annual Governance Statement in conjunction with the Statement of Accounts the follow up and implementation of recommendations is increasingly important, since they provide both officers and Members with assurance as to the effectiveness of key internal controls.

1.4 Assurance is provided on an annual basis as part of the Annual Report on the Internal Audit Service. It is also provided to each Executive Director on a monthly basis, based on the number of recommendations that have been implemented, and where the target date has been changed more than twice on either medium or high risk recommendations.

2. **Issues**

2.1 At the end of quarter three there were two outstanding high risk recommendations. One was at its first target date change and the other has had two target date changes. A copy of this recommendation together with the Executive Director proposal in respect of this can be found at Appendix A

2.2 A summary of the assurance levels for each of the 4 directorates during quarter 3 can be found at Appendix B.

2.3 Given these results at the end of the third quarter there are no issues or concerns in relation to any outstanding recommendations within any of the Directorates.

3. **Reasons for Preferred Solution**

3.1 Reasons for each Director proposal are specific to the actions required.

4. **Outcomes Linked to Corporate Priorities**

4.1 The systems, services and processes reviewed by Internal Audit link to and support the four priority themes of the Council, by reviewing these Audit is making the best use of the Council's resources and improving efficiency and this is further reinforced by managers as they implement the recommendations made.

5. **Legal and Statutory Implications**

5.1 The Accounts and Audit Regulations 2011 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices'.

6. **Equality Impact Assessment**

6.1 There are no differential equality impact issues identified from this proposal.

7. **Financial and Resource Implications**

7.1 The majority of recommendations are met within existing resources; where additional resources are required these will form part of a separate report.

8. **Major Risks**

8.1 The role of Internal Audit is to provide management with an objective assessment of whether systems and controls are working properly. High Risk Recommendations identify areas where action is required in order to avoid exposure to risk. If managers fail to act upon fundamental audit recommendations assurance cannot be given on the adequacy of the systems of internal control.

9. **Key Decision Information**

9.1 Not applicable

10. **Earlier Cabinet/Committee Resolutions**

10.1 Where fundamental recommendations show a target date change; this identifies the number of times the recommendation has been referred back to Executive Management Team and to members for consideration of the risks prior to agreeing an extended implementation date or other action.

11. **List of Appendices**

    Outstanding Recommendation with two target date changes at end of Quarter 3 2014/14

    Audit Recommendations Summary of Assurance for Quarter 3 2014/15

12. **Background Papers**

    Internal Audit PI and Assurances file

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Report –Audit and Risk Committee
Outstanding High Risk Recommendations where target date has been changed twice - Quarter 3 14/15

Operational Services					
Audit Area	**Recommendation agreed with Managers**	**Last Target Date**	**No of Times the Target has Changed**	**Executive Director Proposal**	**Recommendations**
Fleet Management	The draft vehicle management policy should be reviewed and updated in line with the updated driving at work policy.	31/12/14	2	A review of both the driving at work and vehicle management policies is necessary - a number of recommendations made as a result of this audit will be addressed within the newly reviewed policies. The Head of Service stated that a working group is to be convened to address the driving at work policy. 10/03/14 – As per Head of Fleet and Recycling Services an extension was requested until 30/6/14. A Working group has been set up - Draft will be developed by 31/3/14 - The policy will need to pass through the relevant corporate groups. 05/08/14 - As per Head of Fleet and	That the recommendation be closed following the response provided by the Head of Fleet and Recycling Services

| | | | | Recycling Services, the draft policy has been developed - waiting for the Driving at Work policy to be adopted. Request target date extension to 31/12/14.
30/1/15 – Head of Fleet and Recycling Services reported that there is no longer the requirement for a separate Vehicle Management Policy, as items that are covered within this policy are either addressed in the Driving at Work Policy or covered in a range of working practice document already developed for the management of our fleet, such as overload, defects, fuel etc. | |
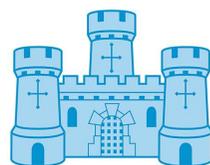
NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

Summary of Outstanding Audit Recommendations and Levels of Assurance – Quarter 3 (2014-15)

	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov	Dec
Total number of Recommendations	11	11	13	125	116	85	45	45	43	91	96	96
Number of Recommendations Outstanding as at the end of the month	3	0	2	27	19	25	6	6	7	4	8	19
% Implemented as at the end of the month	67	100	82	75	80	64	81	82	79	94	89	77
% Overdue for implementation as at the end of the month	33	0	18	25	20	36	19	20	21	6	11	23
No of recommendations with target date changed > 2	0	0	0	5	3	6	0	0	0	2	0	4
High Risk recommendations with target date changed > 2	0	0	0	0	0	0	0	0	0	0	0	1
Medium Risk recommendations with target date changed > 2	0	0	0	4	2	4	0	0	0	1	0	2

Classification: NULBC **UNCLASSIFIED**

	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov	Dec
Low Risk recommendations with target date changed > 2	0	0	0	1	1	2	0	0	0	1	0	1
Overall Assurance Level	Ltd	Full	Sub	Sub	Sub	Ltd	Sub	Sub	Sub	Sub	Sub	Ltd
Annual Audit Days for Directorate*	62			206			65			102		
Total number of audit reviews for the Directorate*	7			18			8			9		

Opinions are classified as;

Full	The Internal Audit did not reveal any control weaknesses based on the samples at the time of the audit	94% - 100%
Substantial	The Internal Audit identified areas that required necessary action to avoid exposure to significant risk	70% - 93% or target changed > 2 on medium risk recommendations
Limited	The Internal Audit identified areas where it was imperative to act to avoid exposure to risk	50% - 69% or target changed > 2 on high risk recommendations
Little	The Internal Audit identified very little evidence of key controls being in place or a repetition of evidence that known action has not taken place to avoid exposure to high risk i.e.: as identified in previous audits. This exposes the Council to high risks that should have been managed.	Below 50%

Full assurance can be given where the Council achieves 94% of all recommendations implemented as the agreed performance measure for 2012-13.

Where target dates for the implementation of recommendations are changed or renegotiated we cannot give our full assurance. If the ongoing risk was considered as;

High Risk:(_action that is considered imperative to ensure that the authority is not exposed to high risks; (Implemented within 1 month))_

Medium Risk: _(action that is considered necessary to avoid exposure to significant risks: (Implemented within 3 months))_By changing the date the risk is not being managed and therefore you may wish to seek additional assurance as to the security of the controls in place.

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Classification: NULBC **UNCLASSIFIED**
NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO
AUDIT & RISK COMMITTEE

Date   16 February 2015

HEADING   *INTERNAL AUDIT PROGRESS REPORT – Quarter 3 2014/15*

Submitted by: Audit Manager

Portfolio   Finance and Resources

Ward(s) affected All

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1st October to 31st December 2014. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

Recommendations

That Members consider any issues that they may wish to raise with Cabinet and, or Executive Directors.

Reasons

The role of Internal Audit is to ensure that the Council has assurance that controls are in place and operating effectively across all Council Services and Departments.

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1   Background

1.1 The Internal Audit Plan for 2014/15 allows for 520 days of audit work.

1.2 This is the third progress report of the current financial year presented to the Committee and the areas that it will cover are as follows;
- Actual against planned performance for the first quarter, demonstrating progress against the plan
- Details of audit reviews completed and final reports issued
- Consultancy and non-audit work, including corporate work

1.3 The delivery of an audit plan does not normally show 25% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 40% by the third quarter. Achievement of the 75% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 75% of the plan is not normally achieved due to slippage of the previous quarter, and other factors such as special investigations. The audit plan is a guide to what may be achieved given optimum resources and no external influences;

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as such it is normal to revise the plan throughout the year to reflect unforeseen issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Audit Manager with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

2   Issues

2.1 **Performance Indicators**

The indicators reported below relate to the end of the third quarter (December 2014).

2.2 **Number of Recommendations Implemented**

At the conclusion of every audit, an audit report is issued to management detailing findings of the audit review together with any recommendations required to be implemented to address any weakness identified.

Up to the end of December 2014, 317 recommendations had been made of which 265 have been implemented, 84%, the target for the implementation of all recommendations is 96% by the end of the financial year.   With 84% of all recommendations implemented to date this provides a good indication that managers are responding to and implementing the recommendations made. We would not anticipate this to be any higher at this stage in the year due to varying factors one being the fact some of the recommendations will not yet have reached their implementation date.

2.3 **Percentage of clients who are satisfied or very satisfied with the service provided**

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2014/15 is 85%.

Out of 6 surveys issued during quarter three, 3 satisfaction surveys were returned; the average for these was 94%.

Progress made against the plan

This is measured using three indicators;

- **Audit staff utilisation rate:** This indicator demonstrates whether staffing resources are being used to complete non audit duties. Audit duties are chargeable to clients and can include audit reviews, special investigations, consultancy and contributing to corporate initiatives in terms of providing controls advice. Non audit and therefore non-productive time covers aspects such as administration, training and leave. The target for productive time is 74%

   Productivity at the end of quarter 3 is 84%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 47% of the planned audits had been completed by the end of quarter 3.

- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 45% of the operational audit plan had also been completed against an expectation of 40%.

2.4 **Audit reviews completed and final reports issued between 1 October and 31 December 2014**

On completion of the audit reviews an opinion can be given as to the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Well Controlled	Controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (vfm)
Adequately controlled	There are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
Less than adequately controlled	Controls are in place but operating poorly or controls are inadequate. Only limited assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
Poorly controlled	Controls are failing or not present. No assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.

2.5 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since the 1st October 2014. Appendix A provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Chief Executives		
Elections	Well Controlled	B
Website Content	Poorly controlled	B
Resources and Support Services		
Treasury Management	Well controlled	A
Sundry Debtors	Adequately Controlled	A
Operational Services		
Refuse Collection	Adequately Controlled	B
Regeneration and Development		
Pest Control	Adequately Controlled	B

Risk categories relate to the risk to the Council achieving its objectives if the area under review is not performing and identify the frequency of the audit. An 'A' risk area requires a review of its key controls on an annual basis or as the need for an audit arises for example, in the case of contracts coming to an end final account audits are required and completed. A 'B' risk area is reviewed twice during a three year programme and a 'C' risk every three years.

'Risk' can be defined as the chance, or probability, of one or more of the Council's objectives not being met. It refers both to unwanted outcomes that may arise, and to the potential failure to reach desired outcomes. Management compliance with agreed action plans will ensure that risks are addressed.

2.6 Consultancy and non-audit projects

During quarter 3 there have been 38 days spent undertaking special projects at the request of other Directorates, these have involved both the Audit Manager and various members of the audit team.

3 Options Considered

3.1 Audit recommendations are discussed and agreed following the issue of the draft audit report. These draft discussions give management the opportunity to discuss and agree the recommendations that have been proposed.

3.2 The audit plan is a living document and as such circumstances may arise that affect it; these are considered in the light of risk and decisions taken to enable intelligent variations to be made to the plan.

4 Proposal

4.1 In agreeing to audit reports, management acknowledge the issues raised and risks identified from the review and therefore accept the recommendations that have been made.

5 Reasons for Preferred Solution

5.1 By implementing the recommendations, the exposure to risk is minimised and achievement of the Council's objectives maximised. The completion of the audit reviews provide evidence on which assurance of the Council's systems and internal controls can be provided.

6 Outcomes Linked to Corporate Priorities

6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money.

6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

7 Legal and Statutory Implications

7.1 The Accounts and Audit Regulations 2011 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

8 Equality Impact Assessment

8.1 There are no differential equality impact issues identified from this proposal.

9   **Financial and Resource Implications**

9.1 The implementation of recommendations will ensure that the areas reviewed will provide value for money in relation to their objectives and that operations are provided safely and risks managed.   This in turn will reduce the risk of financial losses.

9.2 The service is currently on target to be provided within budget.

10   **Major Risks**

10.1 If key controls are not in place, managers are exposing their systems, processes and activities to the potential abuse from fraud and corruption.

10.2 If key controls are not in place, assurance cannot be given that the Services being delivered provide Value for Money for the Council.

10.3 If the risks identified are not addressed through the implementation of agreed recommendations, achievement of the Council's objectives will be affected.

11   **Key Decision Information**

11.1 Not applicable

12   **Earlier Cabinet/Committee Resolutions**

12.1 Agreement of the Internal Audit Plan for 2014/15 (Audit and Risk Committee 17 February 2014).

13   **Recommendations**

13.1 That Members consider any issues that they may wish to raise with Cabinet and, or Chief Officers.

14   **List of Appendices**

14.1 Internal Audit Plan 2014/15: Progress to the end of Quarter 3 – 2014/15.

15   **Background Papers**

15.1 Internal Audit Plan & PI's Folder
15.2 APACE files 2014/15

16.   **Management Sign-Off**

Each of the designated boxes need to be signed off and dated before going to Executive Director/Corporate Service Manager for sign off.

	Signed	Dated
Financial Implications		

Discussed and Agreed		
Risk Implications Discussed and Agreed		
Legal Implications Discussed and Agreed		
H.R. Implications Discussed and Agreed		
ICT Implications Discussed and Agreed		
Report Agreed by: Executive Director/ Head of Service		

Internal Audit Plan 2014/15

Progress to the end of Quarter 3 – 2014/15

Chief Executives Directorate

The following areas have been completed in quarter 3

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Elections	B	Well Controlled	0	2	0	2
Website Content	B	Poorly Controlled	10	5	2	17

The main objectives of the **Elections Review** were to ensure that;
- all expenditure incurred relating to Electoral Registration and Elections is authorised and processed in accordance with Financial Regulations,;
- canvassing of the district is completed in a timely and thorough manner,;
- canvassing staff are appointed so as to ensure that only appropriate, honest, reliable people are employed by NULBC and that all payments to canvassing staff are accurately calculated and appropriately authorised,;
- income received from sale of Electoral Registration details is accurately charged, fully recorded and promptly banked., and
- suitable quantitative performance data is gathered regarding electoral registration to enable the performance of the function to be measured.

Overall the findings from this review concluded an overall audit opinion of **Well Controlled**. There were just two recommendations made these are summarised below;
- The operational risks identified for European and Local Government Elections and Individual Electoral Registration should be recorded / monitored via the Council's GRACE risk management system.
- Health and Safety risks in relation to Elections (including canvassing and polling stations) should be recorded on the Council's Target 100 system.

Website Content – This review was undertaken by the Councils appointed Computer Audit specialist, Terry Day from Information Security Advice Ltd. The main objectives of this review are to ensure that;
- the information held on the councils website is accurate and up to date
- the website properly reflects the services of the Council,.
- there is security against unauthorised links to malicious, immoral or reputation damaging external sites,
- any personal information collected via the website is protected and held securely,
- there is compliance with regulatory and legislative requirements including, Payment Card Industry Standards (PCI) requirements, Accessibility / Disability, Cookies and Privacy,
- the Councils website meets the requirements of the PCI code of practice.

This audit review has an overall audit opinion of Poorly Controlled. A number of recommendations were made as a result of this review, these are summarised below;

- The website should have a separate strategy which all departments should be consulted on to ensure it reflects their requirements.
- Given the proposed commercial arrangement between the Council and new Ltd Company being formed by the Communications Team it is suggested that if the management and support of the Council's website is to fall within the new service level agreement, ownership of the website and approval processes should be tightly defined.
- Meetings of the Web Authors and Web Board should be arranged with an initial remit of proposing their terms of reference for Executive Management Team approval. A schedule of future meetings should also be on the initial agendas as should the choosing of a Chair Person for the groups. All meetings of the Web Board and Web Authors should be minuted with any actions arising from the meeting.
- A clear development brief for the new website / Drupal Content Management System (CMS) should be documented and approved to ensure the development meets the Councils requirements and avoid any inefficient use of development resources.
- The Web Board along with the Head of Leisure and Cultural Services should consider the observations contained in this report on the omissions within the design of the Jubilee2 web site and the potential efficiencies of incorporating its content into the development of the new Council web site.
- Management should ensure that all edits / amendments to the web pages follow a defined workflow review and change control process against a "best fit" to the ITIL principles already adopted within ICT.
- Management should consider the skill set required for the day to day on-going support of the new Drupal CMS and whether the technical skills required to meet the Councils Service Level Agreement (SLA) expectations for this aspect of Communications support are available with the Communications team.
- A revised list of reviewers should be compiled by the Web Authors Group and approved by the Web Board. Guidance on the review process and expectations placed on the nominated reviewers should be drafted and circulated to all nominated reviewers.
- The new CMS should be configured to restrict access by web author to review and edit only the pages relevant to their department / section.
- The E-Communications officer should provide a formal monthly performance report for the website to the Web Board and Web Authors group.
- The presentation of key regulatory information (data protection, Freedom of Information (FOI) and Environmental Information Regulations (EIR)) should be more clearly signposted and accessible within the new website CMS. The inclusion of a disclosure log for FOI and EIR responses made by the Council should be considered.
- The Web Board and Web Authors groups may wish to consider alternative methods of making their key page information available in languages other than English to ensure it conveys the correct message to the "non English" reader.
- Management should consider allocating an overarching responsibility for Payment Card Industry Standards (PCI) to a senior member of staff. This role should be supported by a defining PCI policy to be followed by all staff dealing with payment card information.
- Management should review the security in place for the access to card data provided by customers to the Councils automated call manager.
- Gladstone Health & Leisure should be requested to provide the Council with a current PCI certificate for the chip and pin card devices and processing of payment data through the Gladstone leisure management system.

Resources and Support Services Directorate

Areas completed in Quarter 3 of the 2014/15 Audit Plan

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The following areas have been completed in quarter 3

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Treasury Management	A	Well Controlled	0	0	0	0
Sundry Debtors	A	Adequately Controlled	1	4	1	5

Treasury Management - The main objectives of this review are to ensure that;

- Borrowing and investing only takes place in line with the authority's requirements and is subject to its policies and regulations,
- All borrowing undertaken by the authority is strictly controlled and adequately recorded. Decisions to borrow are justifiable,
- The investment of funds by the authority is subject to adequate control and detailed records are maintained of all investments made by the authority,
- There is regular monitoring and reporting regarding the performance of the investment portfolio,
- Adequate authorisation procedures exist regarding borrowing and investing activities. Transactions are capable of being traced back to the originating officer,
- Loan and investment amounts are properly controlled, recorded and valued,
- There are clearly defined procedures regarding the appointment and use of brokers and fund managers.

This audit review has an overall audit opinion of **Well Controlled**. No recommendations were made as a result of this review.

Sundry Debtors - The main objectives of this review are to ensure that;

- the responsibility for raising sundry debtor accounts has been clearly defined and that accounts are only used where appropriate;
- sundry debtor accounts are raised in accordance with the Authority's policies;
- there are records to support all funds received and that the organisation's financial records are updated to reflect all payments made;
- there is a laid down policy for the treatment of bad and outstanding debts and that debt collection is monitored;
- write offs are performed in accordance with the Authority's policies and that all accounts are correctly updated to reflect all write offs;
- appropriate and effective use is made of computer technology regarding the administration of the sundry debtors function;
- all significant risks have been identified and documented within the relevant risk register and are appropriately managed.

This audit review has an overall audit opinion of **Adequately Controlled**. A number of recommendations have been made with a view to assist management in further improving the Sundry Debtors function, these are summarised below;

- The write-off schedules and corresponding director/member approvals should be provided to Internal Audit for the 2013/14 financial year.
- The main day to day procedures within the Debtors section should be documented to ensure the uninterrupted operation of the service should key members of staff become unavailable
- The IT issues preventing officers from raising day books electronically should be resolved as soon as possible

- A decision should be made as to whether the Council needs to have a policy in place relating to the consistent treatment of aged debt. If so, this should be documented at the earliest opportunity
- The anomaly whereby aged debts are showing on the Civica system (as per the Aged Debtor Report), where no debt is outstanding (as per the individual Debtor Transaction Reports) should be addressed and measures put in place to correct this at the earliest opportunity
- The day books used across the Council should be updated to include a field for the inclusion of the date completed, with responsible members of staff requested to date the document. This template should then be forwarded to all sections so that all departments across the Council are using the same day book form
- Staff should be reminded that debtors' accounts should only be raised for items of £40 or more

Operational Services Directorate

Areas completed in Quarter 3 of the 2014/15 Audit Plan

The following areas have been completed in quarter 3

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Refuse Collection	B	Adequately controlled	0	5	0	5

The main issues arising from the above audit can be summarised as follows;

Refuse Collection- the main objectives from this review were to ensure that;
- Health and Safety issues have been addressed and that all staff have been made aware of Health and Safety requirements,
- clear lines of communication exist between management and operatives.
- staffing arrangements are adequate,
- time recording, overtime and additional payments are recorded as necessary and have been authorised and approved.

Overall the findings from this review concluded an overall audit opinion of **Adequately controlled**. This means that controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (VFM).

As a result of the audit review a number of recommendations were made in order to improve systems, processes and controls, these have been summarised below;
- The incident reporting system currently being developed by the Waste Operations Manager should allow for the formal documented reporting of operational risks / difficulties encountered by operatives.
- A full record of reported incidents, subsequent reviews and further actions implemented should be maintained in a central log along with any advised safe systems of work.
- A formal record of specific practical 'on the job' training undertaken by new employees throughout the induction phase should be maintained (possibly via checklist). This should also include the results of any assessments undertaken (pass/fail).
- The Human Resources section should ensure that leave entitlements for the Waste Management service are input to the Mitrefinch system in order that the recording

and monitoring of leave within the absence profile module of the system can be commenced.
- In order that a full record of attendance is held on the Mitrefinch system, days off taken in respect of annual leave should be logged.

Regeneration & Development Services

Areas completed in Quarter 3 of the 2014/15 Audit Plan

The following areas have been completed in quarter 3

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Pest Control	B	Adequately Controlled	0	5	1	6

Pest Control - The main objectives of this review were to ensure that;
- safe and secure working procedures are in place and that any health and safety requirements are met,
- work is adequately allocated and recorded,
- there is a suitable stock control procedure in place,
- contractual obligations between the Council and third parties are met and adequately monitored,
- relevant performance review and reporting is in place,
- risks relevant to the service have been identified, documented and are monitored accordingly.

This audit review has an overall audit opinion of **adequately controlled**. A number of recommendations were made in order to further enhance and improve the existing controls, these are summarised below;

- The Authority Public Protection (APP) system should be updated to provide the current situation with regards to each open case.
- The Environmental Wardens (Pest Control) should provide the Environmental Health Team Manager – Dog and Pest Control at Team Briefings with documentary evidence substantiating any job which has been open for a period exceeding 4 months.
- Suitable lone working procedures should be in place.
- A 10% sample of customers claiming free rat treatment should be sampled each month to verify their entitlement to the free treatment. The ability to make payments on line with regards to Pest Control bills should be made available as soon as possible.
- The risk assessments held on Target100 should be reviewed, with any historical assessments which are no longer in use, being removed.

Note on recommendations

Recommendations fall into one of three categories;

High (H):   *action that is considered imperative to ensure that the authority is not exposed to high risks;*

Medium (M):   *action that is considered necessary to avoid exposure to significant risks;*

Low (L):   *action that is considered desirable and which should result in enhanced control or better value for money.*

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MEETING BEING SUBMITTED TO   Audit and Risk Committee

1.   **HEADING**   **Internal Audit Plan 2015/16**

Submitted by: **Audit Manager**

Portfolio: **Finance and Resources**

Ward(s) affected: **All**

Purpose of the Report

To inform Members of the proposed Internal Audit Plan for 2015/16 and to seek their approval as to its contents.

To agree with members the reporting arrangements for performance against the 2015/16 proposed plan.

Recommendations

A   That the Internal Audit Plan for 2015/16 is approved

B   That Members agree to the continuation of the reporting arrangements as set out in the report.

Reasons

Under the Public Sector Internal Audit Standards (PSIAS) Internal Audit has a duty to plan effectively to ensure it contributes to the Council's objectives at strategic and operational levels. Planning also enables Internal Audit to demonstrate that they are making the best use of resources.

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1.   **Background**

1.1   The Local Government Accounts and Audit Regulations 2011 require every Local Authority to maintain an adequate and effective system of internal audit of accounting records and control systems. Internal Audit is an independent appraisal function within the Borough Council under the control of the Executive Director Resources and Support Services and Section 151 Officer. The Section also provides a service to management by giving assurance that there are adequate internal controls in operation, ensuring the proper, economic, efficient and effective use of resources, to include the security of assets and data and to assist management in preventing and detecting fraud. This is covered by routine system and regularity audits and under a wider remit by value for money and special audits.

1.2   A sufficiently resourced and effective Internal Audit Section is key to providing assurance on the Councils systems of internal control and the prevention and detection of fraud and corruption. In addition External Audit require assurance that 'the Council has arrangements in place to maintain a sound system of internal control' with evidence to support that:

- The Council reviews and reports on its systems of internal control

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- The Council has an audit committee or equivalent and an internal audit function and that the internal audit function operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.

Best practice guidance states that Internal Audit should achieve 90% of its internal audit plan. Any divergence from the plan should be due to legitimate operational factors, i.e. special investigations, and the plan should be reappraised.

1.3   In reviewing the effectiveness of the Internal Audit function, external auditors will look for:

- Evidence of a risk assessment of material items of income and expenditure and that Internal Audit reviews all high risk financial systems each year and medium risk financial systems on a cyclical basis;
- Evidence that such risks are reported to Members;
- Evidence that Internal Audit has the resources to deliver its work programme;
- Evidence of a process to ensure that accepted recommendations by Internal Audit are reviewed by senior management and members;
- Evidence that arrangements for discharging the functions of an Audit Committee have been considered, such functions would include;
  - Reviewing the adequacy of policies and practices to ensure compliance with statutory and other guidance;
  - Reviewing the adequacy of internal controls and
  - Monitoring the performance of internal audit and agreeing to the external audit plan.

A review of the Council's Corporate Governance arrangements and Internal Audits role in this helps to support and demonstrate compliance in these areas.

2.   **Issues**

Internal Audit Plan for 2015/16

2.1   The Internal Audit Plan is calculated in terms of audit days, 500 for 2015/16, see Appendix A, this is based on a full risk assessment of each audit area which considers expenditure, income, management controls, operational practices, political and legislative influences and the risk of fraud. In accordance with the PSIAS the plan is fixed for no longer than one year and outlines the areas to be covered together with the estimated resource, in terms of audit days required to complete the reviews.

2.2   Information from risk assessments on each audit area is subjected to a weighted risk assessment process to allocate the available resources to those audit reviews identified to be of greatest risk. At present the risk model is set up to ensure all areas are covered over a three year cycle. Appendix B shows an example of the risk assessment conducted against each audit area. In addition to this Executive Directors and Heads of Service are requested to raise any new areas that may require auditing or a change in practices to existing audit areas and to comment on the proposed annual plan and resultant Audit Services. At the beginning of each audit a brief is sent to Executive Directors and Heads of Service highlighting the objectives of the audit and requesting any comments or inputs into the proposed work. At the end of every audit a new risk assessment is completed to reflect any changes to the audit area and therefore risks, and this is then subject to the weighted risk assessment process and the plan is updated annually.

2.3   In producing the Audit Plan for 2015/16 using the existing risk model and in an ideal situation where the Internal Audit Team is fully resourced on a regular basis, a total of 938 productive

days are required if all risks are to be covered. However, this model has to be balanced against the resources available and those reasonable for an authority of this size. Audit days available for 2015/16 have been calculated at 500. The plan is refined to match the available resources ensuring that all 'A' risk audit areas will be covered and then priority is given to 'B' risk areas, in this way reviews are prioritised based on need and relevance to the Council's priorities. The revised plan covers all 'A' risk audit areas which total 197 days and 303 days for 'B' risk areas.

2.4   Given the resources available for 2015/16 a total of 438 days were required to be adjusted out of the plan, these were identified as follows;

- a review of the planning model where a total of 196 days were identified for areas that were no longer relevant and included reviews such as Pericles Replacement, Agresso System, Use of Resources, United Charities, Slum Clearance, FLARE (Environmental Health System) and Renew.
- since 2011/12 key financial systems are reviewed on a rotational basis whereby half the systems are done in full and the other half are just reviewed in terms of key controls, this has allowed for a further 107 days to be adjusted from the plan for 2014/15,
- the remaining 135 days were identified by reviewing days already allocated to audit reviews in the plan and some audit areas that had been completed in 2014/15 and as a result did not warrant a further review in 2015/16.

2.5   There have been a number of new areas identified for review during 2015/16; these include Safeguarding, Locality Commissioning, The Transparency Agenda and Ethical Governance. In terms of these reviews these have been identified by Heads of Service as new areas or identified as a growing area thorough networking with local and national audit forums. One such area identified through the latter is that of Ethical Governance, this is not to be confused with Corporate Governance which looks at the Annual Governance Statement but which looks more widely at the overall governance requirements as set out in the Localism Act 2011, to ensure that there are adequate arrangements in place

2.6   When deciding on which areas to leave in the plan and which to remove a number of factors were taken into consideration these included the date of the last audit, knowledge gathered as part of other reviews, and feedback from Heads of Service etc.

2.7   During the course of 2015/16 the current audit management system APACE will be replaced with a new fully integrated and modern internal audit management system, Ideagan (Pentanna). APACE has been in place since 2002 and is now considerably outdated. With no prospect of development of the system from the supplier of APACE a procurement exercise was undertaken to identify a system that would provide a more modern and efficient way of working for the Internal Audit Service. Four suppliers responded and all the systems were evaluated for price and quality to ensure that the most economically advantageous system was procured. Ideagan (Pentanna) scored the highest in terms of price and quality and as such were awarded the contract to supply the new audit system. The system will be implemented during 2015/16 and developed over the course of the year. Updates on the progress of this will be provided as part of the quarterly reports to the committee.

2.8   The new system will provide a new and efficient way of working for the Internal Audit Service in that the system is fully integrated with the capability of automatically producing an audit report from the compilation of audit working papers; in addition the system provides an automated recommendation tracking facility. Both of these facilities alone will provide efficient working practices for the Internal Audit Service. Additionally functionality includes a library facility for audit programmes and also a quality control and sign off procedure which will

enable the service to demonstrate compliance with the Public Sector Internal Audit Standards (PSIAS).

Internal Audit Performance Reporting

Progress against the Audit Plan will be reported as part of regular quarterly reports to Audit and Risk Committee.

3.0 **Options Considered**

3.1 In considering the resourcing of the Internal Audit Section consideration is given to the skills required and those that are available internally, or are best provided by external companies. The provision of Computer Audit skills is a specialist area and one that is constantly changing. Whilst internal auditors can provide a level of computer auditing looking at environmental controls and some of the basics in relation to systems and project management, the more technical expertise will be bought in. The provision of Computer Audit work for 2015/16 is currently being reviewed and quotations are in the process of being obtained. The Committee will be advised of the results of this process through reports to future meetings.

4. **Proposal**

4.1 In agreeing the proposed Audit Plan for 2015/16 members are agreeing to a review of all audit areas listed, following a risk assessment based on the information available for review during 2015/16 and within the resources available to the Section as identified at the beginning of the year.

4.2 Once agreed the plan will be translated into an operational plan detailing the audit assignments to be carried out, the purpose of each assignment and the allocation of resources. Each assignment will have clear objectives and scope to be delivered within the allocated resources and will be supervised for quality and consistency.

5. **Reasons for Preferred Solution**

5.1 By agreeing to the proposed plan the Internal Audit Section is fulfilling its responsibility to plan effectively and ensure that it contributes to the Council's objectives at strategic and operational levels. The plan will also enable Internal Audit to demonstrate that they are making the best use of their resources balanced against the perceived risks to the Council.

6. **Outcomes Linked to Corporate Priorities**

6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money. Therefore ensuring the best use of the Council's resources and improving efficiency where weaknesses are identified.

6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

7. **Legal and Statutory Implications**

7.1 The Accounts and Audit Regulations 2011 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

8. **Equality Impact Assessment**

8.1 There are no differential equality impact issues identified from the proposal.

9. **Financial and Resource Implications**

Resourcing of the Internal Audit Section

9.1 The present Internal Audit Section has 3.5 posts, which include the Audit Manager and 2.5 operational staff providing, a combined total of 470 days in addition 30 days are brought in from specialist external computer auditors,

9.2 The provision of computer audit for 2015/16 will be delivered by an external computer audit specialist. Quotations are currently being sought for this work and as mentioned earlier in this report the results of this market testing will be brought to a later meeting of this committee.

9.3 The Audit Plan for 2015/16 can be provided within current revenue budgets provided that the staffing resources remain unchanged from estimates used in support of the proposed plan.

10. **Major Risks**

10.1 Any issue that increases the demand on Internal Audit Section which in turn diverts the attention from the completion of the Audit Plan is a risk to the organisation. Non completion of the Audit Plan will increase the risk to the Council of poor financial and managerial controls due to assurance not being given for these. This in turn could result in District Audit Management Letters, poor value for money and increase the risk of fraud or corruption.

10.2 A full risk assessment has been completed in respect of the Internal Audit Service; a copy of this assessment is shown at Appendix C

11. **Key Decision Information**

11.1 Not applicable.

12. **Earlier Cabinet/Committee Resolutions**

12.1 Not applicable.

13. **List of Appendices**

Appendix A   Proposed Internal Audit Plan 2015/16

Appendix B   A risk assessment conducted against each audit area

Appendix C   Risk Assessment in respect of the Audit Service

14. **Background Papers**

14.1 Internal Audit Plan 2015-16-(Electronic file)

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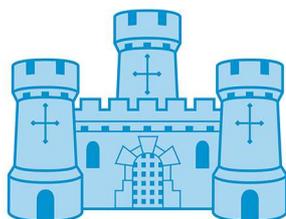
Internal Audit Plan
2015/16

Audit Areas	Risk	Days
Chief Executives		
Insurance	B	10
Licencing	B	10
Committee Services	B	10
Safeguarding	A	10
Locality Commissioning	B	10
Chief Executive Total Days		**50**
Resources & Support Services		
Payroll (key controls only)	A	5
Human Resources	A	6
Income Collection	A	5
Council Tax (key controls only)	A	5
Creditors (key controls only)	A	5
Asset Management (Capital)	A	10
Grants and Concessions	B	10
Civica - Main Accounts (key controls only)	A	5
Treasury Management (key controls only)	A	5
Bank Account Reconciliation & Arrangements	B	5
Budget Monitoring	B	5
Information Security (review of policies)	A	8
Housing Benefits	A	30
National Non Domestic Rates (key controls only)	A	5
Sundry Debtors (key controls only)	A	5
National Fraud Initiative	A	10
Medium Term Financial Strategy	B	5
Bailiff Contract	B	5
Stationary Controlled & Purchased	B	2
Agile Working*	B	7
Cloud Computing*	A	6
Disaster Recovery*	B	7
Application Review - iDocs*	B	7
I T Security *	A	5
Resources and Support Services Total Days		**168**

1

Operational Services		
Kidsgrove Sports Centre	B	10
Fleet Management	B	15
Streetscene	B	20
Current & Final Accounts	A	10
Museum	B	10
Community Centre Review	B	10
Park Attendants	A	2
Operational Services Total Days		**77**

Regeneration & Development Services		
Markets	B	15
Building Control	B	10
Section 106 Agreements	B	5
Public Buildings Cleaning	B	5
Energy Management	B	5
Dog Wardens	B	10
Current and Final Accounts	A	10
Conservation Service	B	5
Planning and Development Control	B	20
Economic Development & Promotion	B	10
Civil Parking Enforcement	B	10
Town Centre Partnership	B	5
Property Management - Asset Disposals	A	5
Regeneration and Development Services Total Days		**115**

Corporate Functions		
Gifts Hospitality & Private work/interests	A	5
Mileage Travel & Subsistence Allowances	B	10
Performance Management	A	10
Corporate Governance	A	10
Partnerships	A	5
Enforcement	B	10
Court Costs	B	5
Strategic Risks - Action Plans	A	5
Mobile Phones	B	5
Transparency Agenda - Localism Act	B	5
Ethical Governance	B	10
Information Governance (IG) Toolkit	B	10
Corporate Functions Total Days		**90**
Total Days for 2014/15		**500**

* denotes ict areas that have been identified for review and will be completed by an external computer audit specialist.

2

UPDATE FORM FOR NEEDS ASSESSMENT

The following needs to be completed during every audit, not all boxes will be applicable to all areas but the form should be clearly marked where this is the case.

AUDIT AREA	
FILE REFERENCE	
AUDITOR	

		RISK ELEMENT	SCALE OF QUALIFICATION	
1		**INTERNAL CONTROL QUALITY (25%)**		
1		**Segregation of duties**		
		Total control over staff activities (e.g. in house development in a sizeable, wel established control environment, internal contractor	1	
		Mixed internal / external partnership situation	2	
		Some controls effective – managed service, external staff internal equipment	3	
		Almost no control, fully externalised	4	
2		**Documentation**		
		Fully documented and up to date	1	
		Partial documentation but not necessarily up to date	2	
		Poor/ absent documentation	3	
3		**Quality / reliability**		
		Controls match risks – no problems encountered	1	
		Minor controls – ineffective	2	
		Controls ineffective – no problems in the past	3	
		Controls ineffective – major problems in the past	4	
		N.B. If There Is No Previous Experience Of The Area Or The Internal Control Quality Is Not Known – Enter A Score Of 2		
2		**CRITICALITY / MONETARY FACTORS (30%)**		
1		**Criticality**		
		Insignificant impact on operational / strategic plan	1	
		Partial impact on operational / strategic plan	2	
		Significant impact on operational / strategic plan	3	
2		**Expenditure**		
		£0	1	
		£1-50,000	2	
		£50,000 – 250,000	3	
		£250,000 – 1,000,000	4	
		£1,000,000 – 5,000,000	5	
		£5,000,000+	6	
3		**Income**		
		£0	1	
		£1-50,000	2	
		£50,000 – 250,000	3	
		£250,000 – 1,000,000	4	
		£1,000,000 – 5,000,000	5	
		Above £5,000,000	6	
4		**Stores**		
		None	1	
		Below 1,000	2	
		Above 1,000	3	
5		**Transactions**		

	0-1	1	
	1-1,000	2	
	1,000-10,000	3	
	10,000-100,000	4	
	100,000-200,000	5	
	Above 200,000	6	
3	**ENVIRONMENTAL CHANGE (20%)**		
1	**Personnel Structure**		
	Static workforce	1	
	Low level / low number of changes	2	
	High turnover – staff / management	3	
2	**Systems**		
	Static	1	
	Minor enhancements	2	
	New Systems	3	
3	**Growth**		
	Static	1	
	Anticipated increase / decrease	2	
	Unexpected or very significant growth	3	
	A significant increase in growth is approximately 20%		
	Incidence of local and national fraud		
	Minimal	1	
	Significant	2	
	High	3	
4	**COMPLEXITY (10%)**		
	Systems (computer or manual)		
	Simple manual or stand alone	1	
	Fully integrated / automated	2	
	Large number of separate systems	3	
	Technical (area under audit)		
	Capable of audit without specialist input or training	1	
	Some training or research required to undertake audit	2	
	Detailed specialist training / input required	3	
5	**LEGAL AND REGULATORY CONSIDERATIONS (5%)**		
	No recent new legislation and / or no specific problems monitored in the press release	1	
	One of high level regulatory requirements, grave consequences of non compliance, recent direct regulatory criticism, major new legislation	2	
	More than one of the above occurrences	3	
6	**POLITICAL SENSITIVITY**		
	Not politically sensitive	1	
	Some political pressure group interest	2	
	Considerable interest, client sensitivity and impact of failure on other systems	3	
	Date risk analysis updated on APACE		
	Signature of administrator		

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Internal Audit Risk Review

Risk	Risk Description	Impact	Risk Rating	Existing Control Measure	Description	Final Risk Rating
Information provided not accurate or timely	Information provided not accurate or timely	3	9	Notification of Audits given	Notification of Audits given 5 days in advance	6
				Reminders for information given by email and telephone	Reminders for information given by email and telephone	
				Escalation process for information reminders	Escalation process for information reminders	
				Verification of the source of the information	Verification of the source of the information	
				Analysis of information provided	Analysis of information provided	
				Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014	Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014	
Failure to retain key staff with experience & skills	Failure to retain key staff with experience & skills	3	9	Employee Development interviews	Employee Development interviews	6
				Homeworking	Homeworking	
				Flexible working	Flexible working	
				Business continuity identified through process mapping	Business continuity identified through process mapping	
				Workforce Development Plan	Workforce Development Plan	
Major investigation taking priority over audit plan	Major investigation taking priority over audit plan	3	6	Agency staff used when necessary	Agency staff used when necessary	6
				Reallocate audit plan to free up capacity	Reallocate audit plan to free up capacity	
				Officers trained in investigation procedures	Officers trained in investigation procedures	
				Outside investigators employed as and when	Outside investigators employed as and when	
				Investigating procedures training undertaken	Investigating procedures training undertaken	

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High Risk Recommendations not being implemented	High Risk Recommendations not being implemented	3	6	Communication process in place	Communication process in place	6
				Escalation process for information reminders	Escalation process for information reminders	
				Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	
				Reminders for information given by email and telephone	Reminders for information given by email and telephone	
				Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014	Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014	
Lack of co-operation from Managers	Lack of co-operation from Managers	3	6	Communication process in place	Communication process in place	6
				Escalation process for information reminders	Escalation process for information reminders	
				Notification of Audits given	Notification of Audits given 5 days in advance	
				Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	
				Reminders for information given by email and telephone	Reminders for information given by email and telephone	
Failure to meet requirements of External Auditors	Grant Thornton taken over from AC as External Auditors wef Nov 12. Requirements of IA essentially remains the same however GT in process of compiling portfolio of IA work and outstanding audit recommendations from the AC.	3	3	Audit Plan document	Audit Plan document	6
				Improve relationships and have regular meetings between External Audit and Audit Manager	Improve relationships and have regular meetings between External Audit and Audit Manager	
				Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	
				Statutory Officers Group	Statutory Officers Group - group meets bimonthly and comprises of CEO, Monitoring Officer and S151 Officer	

Failure to recognise/be aware of fraud/corruption	Failure to recognise/be aware of fraud/corruption	3	6	Anti-fraud and anti-corruption framework	Anti-fraud and anti-corruption framework and fraud response plan	6
				Financial Regulations	Financial Regulations	
				Fraud manual for Heads of Service	Fraud manual for Heads of Service	
				Money laundering policy		
				Standing Orders	Standing Orders	
				Fraud Awareness - A Guide for Managers	Fraud Awareness - A Guide for Managers	
				Countering Fraud and Corruption Staff Survey	Countering Fraud and Corruption Staff Survey	
				Fraud Response Plan	Fraud Response Plan	
				Whistleblowing policy and fraud response plan for parties contracting with the Council	Whistleblowing policy and fraud response plan for parties contracting with the Council	
				Member Code of Condut to be followed	Member Code of Condut to be followed	
				Employee Code of Conduct to be followed	Employee Code of Conduct to be followed	
Failure to fully identify all relevant controls	Failure to fully identify all relevant controls	3	6	Access to web sites for information	Access to web sites for information	6
				Audit manual	Audit manual	
				CIPFA matrices	CIPFA matrices	
				Information sharing with other authorities	Information sharing with other authorities	
Lack of resources	Lack of resources to complete the audit plan	3	6	Employee Development interviews	Employee Development interviews	6
				Flexible working	Flexible working	
				Homeworking	Homeworking	
				Reallocate audit plan to free up capacity	Reallocate audit plan to free up capacity	
				Audit manual	Audit manual	
				Agency staff used when necessary	Agency staff used when necessary	
				Knowledge transfer	Knowledge transfer	
				Staffing reviewed and benchmarked with other Staffordshire authorities.	Staffing reviewed and benchmarked with other Staffordshire authorities.	
Failure to Comply with the Public Sector Internal Audit Standards (PSIAS)	Failure to Comply with the Public Sector Internal Audit Standards (PSIAS) is mandatory from 1st April, 2013.	3	3	Audit Plan document	Audit Plan document	3
				Anti-fraud and anti-corruption framework	Anti-fraud and anti-corruption framework and fraud response plan	
				Audit manual	Audit manual	
				CIPFA matrices	CIPFA matrices	
				Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	

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Long-term sickness	Long-term sickness	3	6	Homeworking	Homeworking	3
				Knowledge transfer	Knowledge transfer	
				Agency staff used when necessary	Agency staff used when necessary	
				Employee Development interviews	Employee Development interviews	
				Absence management policy	Absence management policy	
Failure to provide efficient staff capacity to deal with unplanned investigations	Failure to provide efficient staff capacity to deal with unplanned investigations	3	9	New Staffordshire Chief Auditors Group Terms of Reference	New Staffordshire Chief Auditors Group Terms of Reference (updated to reflect shared services and potential interaction between authorities).	3
				Corporate Governance issues reinforced throug the Corporate Governance Working Group and associated processes	Corporate Governance issues reinforced throug the Corporate Governance Working Group and associated processes	
				Officers trained in investigation procedures	Officers trained in investigation procedures	
				Outside investigators employed as and when	Outside investigators employed as and when	
				Reallocate audit plan to free up capacity	Reallocate audit plan to free up capacity	
				Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	
				Investigating procedures training undertaken	Investigating procedures training undertaken	
Failure of External Audit providers to inform of changing policies and procedures	Failure of External Audit providers to inform of changing policies and procedures when satisfactory time scales to plan for alternations to service delivery are unachievable	3	9	Continuing consultation and dialogue with External audit	Continuing consultation and dialogue with External Audit	3
				Improve relationships and have regular meetings between External Audit and Audit Manager	Improve relationships and have regular meetings between External Audit and Audit Manager	
				Communication process in place	Communication process in place	
				Audit Plan document	Audit Plan document	
Medium Risk recommendations not being implemented	Medium Risk recommendations not being implemented	1	4	Communication process in place	Communication process in place	4
				Escalation process for information reminders	Escalation process for information reminders	
				Reminders for information given by email and telephone	Reminders for information given by email and telephone	
				Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014	Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014	

Low Risk recommendations not being implemented	Low Risk recommendations not being implemented	1	4	Communication process in place	Communication process in place	4
				Reminders for information given by email and telephone	Reminders for information given by email and telephone	
				Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014	Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014	
Failure of APACE	Possible failure of the audit management and planning system that provides the information for the audit plan, time recording, recommendations and performance information.	2	5	Use of Microsoft Office Products	If APACE failes then its likely that alternative ICT systems will be needed i.e. Microsoft Office Products.	1

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