

**REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO
AUDIT & RISK COMMITTEE**

Date 28 September 2015

HEADING **INTERNAL AUDIT PROGRESS REPORT – Quarter 1 2015/16**

Submitted by: Audit Manager

Portfolio Finance IT and Customer

Ward(s) affected All

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1st April to 30th June 2015. 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.

1 Background

1.1 The Internal Audit Plan for 2015/16 allows for 500 days of audit work.

1.2 This is the first 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 10% in the first quarter. Achievement of the 10% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 25% of the plan is not normally achieved due to slippage of the previous years plan, 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; as such it is normal to revise the plan throughout the year to reflect unforeseen issues.

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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 first quarter (June 2015).

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 June 2015, 204 recommendations had been made of which 182 have been implemented, 89%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 89% 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 2015/16 is 85%.

Out of 2 surveys issued during quarter one, 1 satisfaction survey was returned, the result for this was 86%.

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 1 is 57%. This figure is lower than target due to the fact that we are in the process of implementing a new audit system which is having an impact on both the audit plan and audit resources and also due to one member of the audit team currently on secondment to the Finance Team to cover a period of maternity leave. Provision has been made to backfill this secondment through the use of agency staff.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 8% of the planned audits had been completed by the end of quarter 1.
- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 10% of the operational audit plan had also been completed against an expectation of 10%.

2.4 Audit reviews completed and final reports issued between 1 April and 30 June 2015

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 April 2015. Appendix A provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Chief Executives		
Safeguarding	Less than Adequately Controlled	B
Resources and Support		
Medium Term Financial Strategy	Well Controlled	B
Regeneration and Development		
Bridge Street Subway Mural	Well Controlled	A
Midway Car Park Concrete Repairs	Well Controlled	A
Corporate Reviews		
Mileage Travel & Subsistence Allowances	Adequately Controlled	B
Corporate Governance	No opinion given – work completed as part of the Annual Governance Statement	A

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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 1 the Audit Manager has been involved in various projects which have included the following;

- An assessment of the Council's Corporate Governance arrangements was completed which culminated in the production of the Annual Governance Statement which was presented to the Audit & Risk Committee on the 6 July 2015 for approval alongside the Statement of Accounts. This process involved a number of separate pieces of work being co-ordinated and then an assessment undertaken of the overall governance arrangements for the Council, which resulted in the final statement being produced.
- In addition a total of 15 audit days have been spent undertaking special projects at the request of other Directorates.

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.

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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 2015 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 2015/16 (Audit and Risk Committee 16 February 2015).

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 2015/16: Progress to the end of Quarter 1 – 2015/16.

15 Background Papers

15.1 Internal Audit Plan & PI's Folder

15.2 APACE files 2015/16

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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 2015/16**Progress to the end of Quarter 1 – 2015/16****Chief Executives Directorate**

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Safeguarding	B	Less than adequately controlled	3	10	2	15

The main objectives of the **Safeguarding Review** were to ensure that

- Safeguarding policies and procedures are in place, well publicised and reviewed regularly, and that concerns and allegations are formally recorded.
- Safeguarding training is provided and monitored as necessary.
- Roles and responsibilities are clearly defined.
- Staff are recruited safely and that checks are undertaken to ensure suitability.
- DBS checks are undertaken in line with legislation and information is stored securely.

Overall the findings from this review concluded an overall audit opinion of **less than adequately controlled**. This audit opinion means that 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.

A number of recommendations were made in order to help improve systems and processes these were in relation to ensuring that a process was in place to monitor the review of criminal record checks that are undertaken, that the Safeguarding Policy be reviewed to include links to other internal policies such as the Whistleblowing policy, and that there should be a look at how the issues in relation to safeguarding should be promoted in order to raise awareness. In addition there were also recommendations in relation to having safeguarding champions within service areas and that all staff should undertake relevant training in relation to safeguarding.

Following the audit a number of the recommendations that were made in relation to the Safeguarding Policy have now been actioned; these issues are covered as part of a report that is to be presented to a future meeting of the Cabinet.

Resources and Support Services Directorate**Areas completed in Quarter 1 of the 2015/16 Audit Plan**

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	

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Medium Term Financial Strategy	B	Well Controlled	0	0	0	0
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The main issues arising from the above audits can be summarised as follows;

Medium Term Financial Strategy.

The main objectives of this review were to ensure that;

- the Council has an up-to-date Medium Term Financial Strategy
- budgets are set and managed in accordance with the Medium Term Financial Strategy
- there are regular reporting lines to members concerning the Council’s current financial position
- there all relevant staff & members receive the appropriate financial training.

Overall the findings from this review concluded an overall audit opinion of **well 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).

Regeneration & Development Services

Areas completed in Quarter 1 of the 2015/16 Audit Plan

In accordance with Financial Regulations all final payments made against a contract need to be verified by Internal Audit before payment can be made. During quarter 1 the following final payments have been audited

Contract Name	Contractor	Value of Work	Audit Findings
Bridge Street Subway Mural	Creative Arts North Staffs	£10,810.00	No problems identified, contract delivered within budget-
Midway Car Park Concrete Repairs	Concrete Repairs Limited	£1,474,411.93	No problems identified, contract delivered within budget

Corporate Reviews

These are audit reviews that cut across all Service Areas, as such Audit Briefs go out to all Executive Directors, Corporate and Service Managers and reporting is done on an individual service level in order to retain confidentiality of the issues identified.

Areas completed in Quarter 1 of the 2015/16 Audit Plan

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Corporate Governance	A	No Opinion –part of the Annual Governance	0	0	0	0

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		Statement				
Mileage Travel and Subsistence	B	Adequately Controlled	0	3	0	3

The work was completed in relation to **Corporate Governance** culminated with the completion of the Annual Governance Statement for 2014/15

Mileage Travel and Subsistence, the main objectives of this review were to ensure that;

All claims for travel and subsistence are made in accordance with the Authority's Financial Regulations in that;

- All claims are arithmetically correct and correctly authorised
- All journeys undertaken are logical and appropriate
- All claims are submitted within the appropriate timescale
- All claims are submitted with the appropriate receipts
- Drivers have adequate insurance cover for business use.
- Policies and procedures are in place covering the rules governing travel and subsistence.

Overall the findings from this review concluded an overall audit opinion of **adequately controlled**. This audit opinion means that 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.

A number of recommendations were made in order to help improve systems and processes these were in relation to ensuring that all forms submitted should contain clear details of all journeys undertaken, receipts are provided in respect of car parking and train tickets and that valid driving licences, insurance and MOT certificates should be verified on an annual basis.

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.*