

# Public Document Pack

**Date of meeting** Monday, 30th January, 2012  
**Time** 7.00 pm  
**Venue** Committee Room 1. Civic Offices, Merrial Street,  
Newcastle-under-Lyme, Staffs ST5 2AG  
**Contact** Peter Whalan

## **Audit and Risk Committee**

### **AGENDA**

#### **PART 1– OPEN AGENDA**

- 1 Apologies for Absence**
- 2 DECLARATIONS OF INTEREST**  
To receive Declarations of Interest from Members on items included in the agenda
- 3 MINUTES OF PREVIOUS MEETINGS (Pages 1 - 6)**  
To consider the minutes of the previous meeting held on 14 November 2011.
- 4 Corporate Risk Management Report for Period October to December 2011 (Pages 7 - 14)**
- 5 Community Centre Management Committees - Clarification of Responsibilities (Pages 15 - 16)**
- 6 Annual Audit Letter (Pages 17 - 34)**
- 7 Certification of Claims and Returns - Annual Report (Pages 35 - 44)**
- 8 Information Security DVD - "The Domino Effect"**
- 9 Quarterly Report Adoption of Internal Audit Fundamental Recommendations (Pages 45 - 50)**
- 10 Internal Audit Progress Report Quarter 3 2011/12 (Pages 51 - 60)**
- 11 Internal Audit Plan 2012/13 (Pages 61 - 78)**
- 12 Review of Internal Audit Strategy and the Internal Audit Section Terms of Reference 2012-2015 (Pages 79 - 94)**
- 13 URGENT BUSINESS**  
To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972

**Members:** Councillors D Richards (Chairman), S Blair (Vice-Chair), Boden, Loades,

Waring and Snell

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

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

\*Printed for information

## AUDIT AND RISK COMMITTEE

14 November 2011

**Present:-** Councillor D Richards – in the Chair

Councillors Boden, Loades and Waring

469. \* **APOLOGIES FOR ABSENCE**

An apology for absence was received from Councillor Snell.

470. \* **DECLARATIONS OF INTEREST**

There were none.

471. \* **MINUTES OF PREVIOUS MEETING**

**Resolved:-** That the minutes of the meeting of this Committee held on 26 September 2011 be approved as a correct record.

472. \* **TREASURY MANAGEMENT HALF YEARLY REPORT 2011/12**

Consideration was given to the Treasury Management Half Yearly report for 2011/12.

Reference was made to the Council's investment with the Heritable Bank and it was indicated that nine repayments totalling £1,619,497 have been received from the administrators Ernst and Young. Furthermore on 28 July 2011, the administrators had confirmed a revised estimate of a base case return of between 86% and 90% (in comparison to 79% and 85% base case return estimated on 28 January 2010).

The report also gave details of investments as at 30 September 2011. The Council held £12 million of investment on that date and had an average level of funds available for investment purposes in the first two quarters of 2011/12 of £16 million. The investment portfolio yield for the first six months of the year was 1.01% against a target of 1.00%. The Council's budgeted investment return for 2011/12 was reported to be £218,000 and it was indicated that as at the end of the first two quarters of 2011/12 interest of £112,000 had been earned.

A full list of investments was set out in the appendix to the report.

Having regard to the borrowing position for 2011/12 there was currently no intention to borrow to finance capital investment. The only borrowing envisaged by the 2011/12 Treasury Management Strategy was of a temporary nature to cover short terms cash flow deficits. In conclusion it was confirmed that no borrowing had taken place for the first half of the financial year.

**Resolved:-** (a) That the Treasury Management Half Yearly Report for 2011/12 be received.

(b) That a copy of the Treasury management Counter Parties List be forwarded to all members of this committee.

**473. \* HEALTH AND SAFETY HALF YEARLY UPDATE REPORT**

Consideration was given to the report of the HR Officer (Health and Safety) for the period April to September 2011.

The report provided a brief outline of progress made on health and safety matters during the above period and formed part of the Health and Safety Annual Report for 2011/12 that would be presented to the Committee in June 2012.

It was indicated that 15 work related accidents had been reported during the above period, one of which was reportable to the Health and Safety Executive as a major injury (broken bone in foot). In addition two dangerous occurrences and four verbal abuse /violence reports had been received.

Details of routine inspections carried out to date by the Health and Safety officer were also submitted as follows:-

- Park Pavilions
- Bradwell Crematorium
- Kidsgrove Control Service Centre
- Midway Car Park
- Civic Offices
- St George's Chambers

Inspections of Jubilee Baths and The Guildhall had also been carried out by the Corporate Health and Safety Committee.

Following all of the above inspections, reports had been sent to the premises manager and other responsible officer outlining the findings and advising on any necessary corrective action. Members expressed the view that a set auditable format for inspections should be adopted for all inspections and requested the officers to look into this.

The report also referred to an amendment to the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations extending from 3 days to 7 days the absence period which triggered the accident report to the Health and Safety Executive, that had been approved and would become law in April 2012.

Furthermore, the consultation on proposals by the Health and Safety Executive for recovering costs incurred when visiting organisations closed on 14 October 2011 with the Council's Head of Environmental Health Services responding on the Council's behalf.

**Resolved:-** (a) That the report be noted.

(b) That the officers look at the adoption of a set auditable format to be followed for all inspections.

474. \* **CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD JULY TO SEPTEMBER 2011**

A report was submitted detailing progress made by the Council in enhancing and embedding risk management for the above period including progress made in managing the identified risks.

It was indicated that the risk management process previously adopted by the Council had been reviewed to incorporate changes in the way the Council worked and to provide continuity and streamlined reporting of risks to the necessary stages so that it became further embedded at each level of the authority. This would further develop the identification of key risks that potentially threatened the delivery of the corporate priorities. The new Strategy would also provide a formal and proportionate framework to manage these identified risks and thus reduce the Council's exposure.

Members were advised that the Council monitored and managed its risks through the various risk profiles contained within GRACE (Governance Risk and Control Environment) a software package for recording its High Red 9 risks at least monthly and its Medium Amber risks at least quarterly.

Details of the Council's most significant risks were highlighted in the report and it was indicated that after the review had taken place the following risks had been reduced through good risk management and the re-rating process:-

- Maintenance expenditure on The Midway car park reduced from an extreme risks (old rating system) to a medium amber 6 risk in the new rating systems.
- The retail led development of Ryecroft was proceeding and was now a medium amber 3 risk.
- The risk relating to the planning permission for Jubilee 2 had been re-rated from a high risk on the old system to a low green 2 with the project due for completion/handover during December 2011.

As a consequence of the above actions these risks would be removed from the next quarter's report.

In response to a request made at the last meeting during the discussions on Horizon Planning, a list of emerging legislation that may have an impact on the Council was set out in the report.

The report also responded to a request made at the last meeting by setting out a response from the Council's Executive Director – Regeneration and Development outlining the status of the Local Enterprise Partnership and how the risk register for the Partnership was maintained. A risk profile for the Partnership had also been prepared and was placed before the Committee for consideration.

**Resolved:-** (a) That the progress made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers where applicable be noted.

(b) That the new risks identified between July to September 2011 be noted.

(c) That the Corporate Risk Assessment in respect of fraud be scrutinised in more detail at the next meeting of this Committee.

(d) That the horizon scanning risks listed to be taken into account when making decisions on reports submitted to committees and the effect it may have on the future of the Council be noted.

475. \* **UPDATES TO THE COUNCIL'S ANTI-FRAUD AND CORRUPTION FRAMEWORK**

The Committee received a presentation on the Council's Anti-Corruption Framework following which it considered a report seeking approval of:-

- Anti-Fraud and Anti-Corruption Framework
- Whistleblowing Policy
- Fraud Response Plan

It was indicated that the Council's Existing Anti-Fraud and Anti-Corruption Framework had been reviewed and updated to take into account the new Bribery Act which came into effect on 1 July 2011 and the policies had been benchmarked against those received from a number of other authorities across the West Midlands.

A Fraud Awareness Guide was available to all of the Council's managers and as part of the Council's ongoing commitment to raising Fraud Awareness an on-line training package had been purchased and made available to staff via the Council's Intranet. Training had been rolled out to staff in December 2010 on a voluntary basis and the Audit Manager was now looking at ways in which the training could be made compulsory for all staff. In addition, other means of raising awareness were currently being reviewed in order to ensure the Council's commitment to deterring fraud and corruption was maintained.

In conclusion it was stated that the risk of not having the above strategies in place would mean that staff had no guidance on what to do in the event that they suspected fraud or corruption was being committed which could, in turn, hamper any subsequent investigation required to achieve a satisfactory outcome.

**Resolved:-** That the Anti-Fraud and Corruption Framework, the Whistleblowing Policy and the Fraud Response Plan be approved in their updated forms.

476. \* **QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT FUNDAMENTAL RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JULY TO 30 SEPTEMBER 2011**

Consideration was given to a report on outstanding fundamental recommendations and providing Members with assurance opinions on internal controls over Council Services.

Approval was also sought to the Executive Director's requested actions in respect of the recommendations and proposed Target dates set out in Appendix B to the report.

The committee was advised that high risk recommendations were those agreed with management that were 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 the Committee was accepting the risk of not implementing the control with any delays in the implementation of recommendations affecting the assurance opinion provided for each service.

High risk recommendations were those where action was considered imperative to ensure that the authority was not exposed to high risks and to do this needed to be implemented within one month of the recommendations being agreed with managers. It was reported that in the second quarter there were twenty two high risk recommendations due for review, of which eleven were at their first follow up date and therefore no further action was required at this stage. Four recommendations had received a first target date change and had been referred separately to the Chairman and Vice Chairman of the committee. However, seven recommendations had received two target date changes and details of these were set out in Appendix B to the report. The report also included a further Appendix that set out a copy of the Assurance Summary for September 2011.

In conclusion, it was stated that three Directorates were showing Limited Assurance at the end of the second quarter, whilst the Chief Executive's Directorate had an Assurance Opinion of Substantial. Accordingly there were no issues or concerns in relation to any outstanding recommendations within any of the Directorates.

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

477. \* **INTERNAL AUDIT PROGRESS REPORT QUARTER 2 2011/12**

The Committee received a report regarding the work undertaken by the Internal Audit section during the period 1 July to 30 September 2011.

Up to the end of September 2011, 557 recommendations had been made of which 412 had been implemented (74%), the target being 96% by the end of the year.

The Committee was asked to consider any issues that they wished to raise with Cabinet and, or Executive Directors.

**Resolved:-** That the report be received.

**D RICHARDS**  
**Chair**

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# Agenda Item 4

## CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD October to December 2011

**Submitted by:** Head of Business Improvement and Partnerships

**Portfolio:** Customer Services and Transformation

**Ward(s) affected:** All

### **Purpose of the Report**

To provide an update to Members of the progress made by the Council in enhancing and embedding risk management for the period October to December 2011, including progress made in managing the identified corporate risks.

### **Recommendations**

**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 2011.**
- (c) Identify, as appropriate, risk profiles to be scrutinised in more detail as part of your responsibility at the next meeting.**
- (d) Note the horizon scanning risks listed to bear in mind when making decisions on reports submitted to committees and the effect it may have on the future of the council.**

### **Reasons**

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 the necessary stages so that it becomes further embedded at each level of the authority. This will further develop the identification of key risks that potentially threaten the delivery of the corporate priorities. The new strategy will provide a formal and proportionate framework to manage these identified risks and thus reduce the council's exposure.

To assist the council in its corporate ambition of being an excellent council by helping deliver effective corporate governance, this proactive approach also helps demonstrate good risk management in terms of evidencing that effective risk management is further embedded with the corporate business processes.

## **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 for recording and managing risk.

The Council currently reviews its High (Red 9) risks at least monthly and its Medium (Amber) risks at least quarterly.

The last review of these risks was reported to your Committee in November 2011.

Risk owners are challenged by the Risk Champions in respect of controls, further actions, ratings and emerging risks and challenge reasons for inclusion or non-inclusion and amendment of these.

Projects are managed to a high level in relation to risk and are reviewed in accordance with the risk management strategy – monthly.

2. **Issues**

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

The Council regularly reviews and refreshes its risk registers in accordance with the risk management strategy. This is co-ordinated by the Strategic Risk Champion who works closely with the Directors, Operational Risk Champions and the Risk Owners.

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

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

After the review of the risks had taken place, the following risks have been reduced – through good risk management by your officers, and by the re-rating progress.

- Bad debts reduce the council’s income has been reduced from a medium amber 8 to a medium amber 5 due to the good work of all officers in the continuous monitoring of the income generation stream and the management of bad debts through a funding provision.

The attached appendix now highlights the Council’s most significant risks, with the risks that fall into the top line of the ratings only, being reported.

2.2 **Horizon Scanning**

At the last meeting it was requested that a list of legislative developments be provided, either upcoming or current.

Below is a selected list of prospective legislation currently going through Parliament that could have an impact on the Council. The list is not exhaustive, but represents a selection of the major pieces of proposed legislation currently under debate prior to Royal Assent

An outline of the proposed changes in each of these Bills and the potential impact on the Borough Council was attached to the previous agenda for this Committee and updates will be provided at the meeting.

- Health and Social Care Bill 2011
- Localism Act 2011
- Police Reform and Social Responsibility Act 2011
- Motor Insurance Regulation Bill 2011
- Local Government Finance Bill 2012

Members are asked to nominate any further areas of legislation they might wish to consider at a future meeting and to consider whether they wish to receive further information on the Bills listed here.

### 2.3 **Issues Raised at the last meeting**

A number of issues were raised at the last meeting of the Audit and Risk Committee. The following updates can be provided: -

*Data Protection: when was it last reviewed, who reviewed it and signed it off – is a Scrutiny Committee responsible for examining it and its implications?*

This query was raised with the Head of Human Resources and the following response was received:

“The Data Protection Policy has been incorporated into the Legal Responsibilities Policy which was developed by the Information Security Group, signed off by EMT and last revised in September 2011.

A copy of the policy can be found on eVoice - Audit Section (Information Security folder).

The scrutiny committee responsible for examining it would be Transformation and Resources Overview and Scrutiny.”

*What is the situation regarding Gatedale?*

This question was raised with Property Services and further information can be obtained from the Head of Assets and Regeneration given the nature of the enquiry.

*Community Centre Insurance and its implications?*

This is covered in the report found elsewhere on the agenda.

### 3. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

- 3.1 Good risk management is key to the overall delivery of Council and local improvement priorities.

### 4. **Legal and Statutory Implications**

- 4.1 The Accounts and Audit Regulations 2010 state that:

*“The relevant body shall be 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 facilitates the effective exercise of that body’s functions and which includes arrangement for the management of risk”*

### 5. **Equality Impact Assessment**

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

6. **Financial and Resource Implications**

6.1 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.

7. **List of Appendices**

Appendix – Risk and Action Plan

8. **Background Papers**

None

		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			
Risks and Action Plan		Profile	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
Risk Identified			in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 06/01/2012	as at June 11	as at Sept 11	as at Dec 11
1	Reputational damage	Chief Executive	NONE		Strategic	Although this is identified as a risk, reputation damage is normally a consequence of other risks that have occurred. There are numerous controls in place in this profile, however if this did occur, the impact and likelihood of it happening has resulted in the High Red 9 rating		High 9	High 9
	Potential Claims growth	Chief Executive	Revise operating procedures to ensure they are more robust to defend claims whilst taking into account financial limitations	Jan-12	Strategic	Insurance renewal process currently being undertaken and the claims received are being reviewed to identify what areas seem to be receiving the most claims, in an attempt to change the way the sections work, thereby reducing if possible the number of claims in these areas.		High 9	High 9

Appendix X									
Risks and Action Plan	Profile	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating	
Risk Identified		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 06/01/2012	as at June 11	as at Sept 11	as at Dec 11	
3	ICT system failure	ICT services	Undertake works to complete a few minor issues, then the area to be made fire retardant	Feb-12	Operational	Minor works such as leaking radiators are outstanding. The fire retardant issues for the area are in hand with the property section to place orders and complete these works	Extreme	High 9	High 9
4	Overall budget realisation fails	Resource & Support Services	NONE - this risk is outside of the council's control		Strategic	Numerous controls in place to deal with this internally such as monthly budget reports, MTFS continually reviewed, contingency fund available, realistic increases included in base figures		High 9	High 9
5	Breach of Data Protection Action	Resource & Support Services	A further training of the government protected marking scheme is to be rolled out across the council following the recent mandatory information security briefings to all staff	Mar-13	Strategic	This risk is currently being controlled - various training sessions have taken place with all staff, guidelines are available, data protection and information security training has taken place, however the overall impact and likelihood ratings have remained high.		High 9	High 9

Appendix X									
Risks and Action Plan	Profile	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating	
Risk Identified		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 06/01/2012	as at June 11	as at Sept 11	as at Dec 11	
6	Increase in Fees and Charges does not result in higher income levels	Balances / Contingency Reserve 2012/12	NONE		Project	The control measures in place currently secure this risk as it is, however if any issues arise it is monitored as part of the financial system			Medium 8
7	Fall in interest rates reduces income to the Council	Balances / Contingency Reserve 2012/12	NONE		Project	This risk is somewhat out of the control of the council			Medium 8
8	Abuse of email facility	Fraud Awareness	The updated online fraud and corruption data package now contains an elearning training module on misuse of time and resources on email and internet facilities. Roll out then needs to be done to all staff	Mar-13	Operational	The control measures in place currently secure this risk as it is. The rating is low impact, high likelihood but the mailmeter reports sent to Heads of Service allow the corrective measures when required, to be implemented in line with the disciplinary procedures of the council.			Medium 7
9	Failure to achieve service cost savings in 2012/13 and 2013/14	Recycling Strategy	Contract to be legally extended to current contractors	Jan-12	Project	Approval given for the 2 year extension to the current contract		Medium 8	Medium 8
10	Medium risk recommendations not being implemented	Audit	Continual monitoring and reminders given to officers, however an escalation process is used in the worst scenarios		Operational			Medium 7	Medium 7

Appendix X								
Risks and Action Plan	Profile	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
Risk Identified		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 06/01/2012	as at June 11	as at Sept 11	as at Dec 11
11	Low risk recommendations not being implemented	Audit	Continual monitoring and reminders given to officers, however an escalation process is used in the worst scenarios	Operational			Medium 7	Medium 7
12	Possible receipt of malicious package at the Civic Offices	Customer Services	NONE	Operational	The post opening procedures are kept up to date, however the risk is a low impact, high likelihood		Medium 7	Medium 7
13	Failure to identify a suitable primary authority business partner	Primary Authority Scheme	Contact with businesses taking place, liaison with SCC to become a partner, undertake separate meetings with businesses to discuss	Dec-11	Project	PAS scheme approved by Cabinet 19/10/11, so further actions will be started	Medium 7	Medium 7
14	Bad debts reduce the council's income	Resource & Support Services	NONE	Strategic	This risk is being controlled through continuous monitoring and a bad debts provision		Medium 8	Medium 5



## **COMMUNITY CENTRE MANAGEMENT COMMITTEES – CLARIFICATION OF RESPONSIBILITIES**

**Submitted by:** Executive Management Team

**Portfolio:** Regeneration and Planning/Culture and Active Communities/Resources and Efficiency.

**Ward(s) affected:** All

### **Purpose of the Report**

To respond to a request from the Committee's Chair to provide clarification of the division of responsibilities between the Council and the various Community Centre Management Committees (following the recent health and safety breaches at one of the community centres).

### **Recommendation**

**That the information be received.**

### **Reasons**

To clarify the respective responsibilities of the Council and local Management Committees with regard to the Council's community centres.

## **1. Background**

- 1.1 In 1996 the Council established informal arrangements for the local management of its community centres; at a summary level this meant the Council retaining responsibility for the main property-related matters with the day to day operation and management of the centres being undertaken by the emergent Management Committees.
- 1.2 Following the recent prosecution of the Council, in relation to breaches of Health and Safety legislation at one of the Council's community centres, the Chair of this committee asked officers to advise members about the division of responsibility between the Council and the various Management Committees which manage the centres.

## **2. Issues**

- 2.1 There are no formal agreements in place in relation to the use of the community centres and the responsibilities of the Council and the Management Committee, however, since 1996 an informal arrangement has been adhered to as follows:-
  - (i) The Council is responsible for maintaining the fabric of the building, including the roof, roof timbers, walls, doors, window frames, floors, electrical, gas and water systems, internal and external decorations together with all of the required tests under the statutory testing regime (which includes matters such as gas appliance testing, electrical system testing and, where applicable, legionella testing).
  - (ii) The Management Committee is responsible for all other maintenance and repair which includes glass to windows, floor coverings, light bulbs, crockery, furniture and curtains.

2.2 It is important to note that, since the health and safety breach (relating to gas appliance maintenance) which occurred in one of the centres in 2009, the Council has established and maintained a robust statutory testing regime since then and all gas appliances, including central heating equipment in all community centres, have had annual gas safety checks carried out as required by legislation.

2.3 On a broader note members will be aware that officers are in the process of undertaking a comprehensive review of community centres (see Forward Plan); this exercise will seek to address the full range of considerations including the potential formalisation and clarification of the responsibilities of local management arrangements.

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

3.1 The efficient management and operation of the Council's community centres is important to the achievement of objectives relating to corporate priorities in relation to both the 'creation of a healthy and active community' and 'transforming the Council to achieve excellence'.

4. **Legal and Statutory Implications**

4.1 The Council has a statutory responsibility for maintaining its properties in compliance with prevailing legislation relating to matters such as health and safety, gas safety, legionella and electrical safety.

5. **Financial and Resource Implications**

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

6. **Major Risks**

6.1 There are no risks arising directly from this report, given that the report is simply providing clarification of existing arrangements. However members will appreciate the importance of having satisfactory arrangements in place to minimise the risk of the Council breaching health and safety legislation and those matters referred to earlier.

## ANNUAL AUDIT LETTER 2010/11

**Submitted by:** Executive Director – Resources and Support Services

**Portfolio:** Resources and Efficiency

**Ward(s) affected:** All

### **Purpose of the Report**

To receive the Annual Audit Letter from the Audit Commission dealing with the Audit of Accounts 2010/11 (see attached appendix).

### **Recommendation**

**That the Audit Commission's Annual Audit Letter be received.**

### **Reasons**

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 and corporate governance of public services. This report provides an overall summary of the Audit Commission's assessment of the Council.

The Annual Audit Letter from the Audit Commission dealing with the Audit of Accounts 2010/11 is addressed to the Council, but is also available as a public document for stakeholders, including the community served by the Council.

## **1. Background**

- 1.1 The Audit Commission's Annual Audit Letter summarises the conclusions and significant issues arising from the audit and inspection of the Council for the financial year 2010/11.
- 1.2 The letter summarises the findings from the 2010/11 audit. It includes messages arising from the audit of the financial statements together with the results of the work that the Audit Commission have undertaken to assess the way the Council is managing performance together with the Council's arrangements for securing value for money in its use of resources.

## **2. Issues**

- 2.1 The Audit Commission has issued a very positive report and comments that the Borough Council "continues to manage its finances well". It states "you have demonstrated that the Council, from members, through Cabinet and the management team, to those delivering services, has been proactive in responding to challenges which should leave you relatively robustly positioned for the future".
- 2.2 In respect of the Commission's value for money conclusion the Council has received an unqualified opinion. The Auditor states in the letter "I am satisfied that in all respects the Council has made proper arrangements for securing value for money".
- 2.3 The Audit Commission have issued an unqualified opinion on the financial statements for 2010/11. One of the significant challenges that all local authorities were faced with during the year was the introduction of International Financial Reporting Standards (IFRS). With

regards to the Borough Council the letter states “because of your extensive preparations, although the introduction of these standards has presented a significant challenge to the Council, the finance team were able to produce a draft set of accounts that was in line with good practice. As a result of this work, the financial statements had few errors and the working papers were comprehensive. This was a better position than many councils nationally who had difficulties with the introduction of IFRS”.

3. **Options Considered**

- 3.1 To do nothing is not an option for the Council which is striving for excellence.
- 3.2 The Annual Audit Letter is based on information and evidence supplied by officers and members and has been through a process of quality control. To challenge the reports and review findings is therefore not a feasible option.
- 3.3 The Annual Audit Letter should be received.

4. **Proposal**

- 4.1 To receive the Audit Commission’s Annual Audit Letter.

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

- 5.1 The Audit Commission, external audit function gives assurance on the stewardship of public resources and effectiveness of its services in terms of value for money as well as contributing to the prevention, detection and investigation of potential fraud and corruption incidents. Audit Commission reports and reviews provide external challenge to the Council through which can be demonstrated improvement in relation to the Corporate Priority of ‘Transforming our Council to Achieve Excellence.’

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 from this proposal.

8. **Financial and Resource Implications**

- 8.1 This report raises no additional financial or resource implications in itself.

9. **Major Risks**

- 9.1 The risk of the Council not learning from the issues raised in the Annual Audit Letter may result in the provision of poorer services and increased inspection.

10. **List of Appendices**

Appendix - Annual Audit Letter - November 2011

# Annual Audit Letter

Newcastle Under Lyme Borough Council

Audit 2010/11



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## Traffic light explanation

Red ■ Amber ◆ Green ●



# Key messages

- This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**
- **the audit of your financial statements; and**
  - **my assessment of your arrangements to achieve value for money in your use of resources.**

## Key audit risk

Unqualified audit opinion



Proper arrangements to secure value for money



## Our findings

### Audit opinion and financial statements

2010/11 was the first year the Council prepared financial statements under the International Financial Reporting Standards (IFRS). I have previously reported to you my assessment that the Council was making good progress to prepare for IFRS. My audit of the 2010/11 accounts has confirmed this.

Your finance team has a good understanding of the requirements of IFRS and your approach was in line with good practice examples. Your financial statements were prepared with few errors and the working papers were comprehensive. I did not identify any material errors in your accounts.

### Value for money

I am required to satisfy myself that the Council has made proper arrangements for securing value for money. For 2010/11 the Audit Commission determined two criteria for me to consider:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

I am satisfied that in all respects the Council has made proper arrangements for securing value for money.

With regard to financial resilience, I consider that the Council continues to manage its finances well. For 2010/11 the Council delivered a small deficit.

The Council's budget has set out a clear plan to deliver the necessary savings plans. I have therefore reviewed your medium term financial strategy within the context of the impact of the comprehensive spending review and your decision to have frozen Council Tax in 2011/12.

I found your financial planning assumptions to be reasonable and reported financial data to be used effectively in monitoring financial performance. The ongoing savings programme across all areas of the Council is on-target for 2011/12. In my view, you have demonstrated that the Council, from members, through Cabinet and the management

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team, to those delivering services, has been proactive in responding to challenges which should leave you relatively robustly positioned for the future.

I am also required to look at your arrangements for challenging how you secure economy, efficiency and effectiveness. The Council continues to prioritise resources within tighter budgets and has set out the vision, approach and detailed plans to reduce costs in accordance with the Council's corporate objectives. You have identified efficiencies to be made by undertaking service reviews and the documents and processes are well developed, demonstrating a clear and effective approach to reviewing services in order to produce efficiencies in line with corporate objectives.

You are working closely with a number of other councils to look at areas where you can learn from their approach to change and transformation, in particular, playing an active role in the 'Staffordshire One Place' programme. You are learning from the 'Let's work together' programme in Lichfield, and are playing a leading role in the joint Staffordshire customer relationship management system development.

A key area for improvement in recent years has been your Waste Management Service. Your new collection strategy has delivered over £0.5 million of savings and increased your recycling rates from 27 per cent in 2009 to over 50 per cent in 2010/11. In recognition of this achievement, the Council won a number of awards.



# Current and future challenges

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## **Economic downturn and pressure on the public sector**

The Coalition Government's Comprehensive Spending Review (CSR) in October 2010 announced savings of, on average, 7.1 per cent per annum for each Council from April 2011 until 2015. In reality the savings required for District Councils are significantly higher at around 15 per cent. Savings plans on existing arrangements alone would not be sufficient to meet this challenge. Councils have to fundamentally review their methods of service delivery in every area to identify savings which will retain or improve customer service for the tax payer.

You made a small deficit for 2010/11 and are on track for a small deficit, related to deteriorations in income streams, for 2011/12. You are well placed to meet the challenging financial constraints, producing options to manage finances that complement initiatives already taken. The aim of the changes made to services is to produce savings without affecting frontline services and keeping reserves intact. You have achieved this for 2010/11. Your medium term financial plan has recently been updated and now covers the period 2012/13 to 2016/17. Your assumptions for this plan take into account the reductions in grant funding that are known and assume further challenging reductions for the following four years. You will update the plan as soon as future government funding is known.

The Council has been quick to respond to the significant downturn in development activity, reviewing contracts with third party suppliers of services and undertaking service reviews. You have merged your ICT and Customer Services structures to make them more responsive, particularly around your ICT support function. Savings are expected to be £0.25 million per annum with eight voluntary redundancies. A recent report confirmed that customer satisfaction surveys were positive, with complaint resolution satisfaction at 84 per cent and administration of the blue badge scheme satisfaction at 95 per cent. The Creditors Department also achieves high satisfaction levels with 90 per cent of customers rating it as excellent or very good with 97 per cent of bills being paid on time. Together these results contributed to the Service receiving a national excellence award for customer service in May 2011.

The new Health and Well-being Centre (Jubilee 2) project is progressing on time and to budget. The Centre should open in January 2012 allowing for the closure of the old Jubilee and Knutton Baths which the new centre is replacing.

The recent joint purchase with the County Council of the Ryecroft site will present significant opportunities for future town centre development.

One method of assessing the economic downturn is the trend of people claiming Job Seekers Allowance (JSA). During the period from April 2008 to April 2009, the proportion of people claiming JSA steadily increased from 1.8 to 4.1 per cent of the working age population. Since April 2009 the number claiming JSA has been declining and by December 2010 had reduced to 2.7 per cent of the working age population. Since December 2010 the trend has been less clear with a sharp rise to a peak of 3.2 per cent by February and is at 3 per cent in September 2011. These figures suggest the local economy has stopped improving.

## National initiatives

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In September 2011 the Government published:

- the Code of Recommended Practice for Local Authorities on Data Transparency; and
- Best Value Statutory Guidance.

The Transparency Code sets out central Government's views on the key principles for authorities in creating greater transparency and increasing accountability through the publication of data. It is central Government's view that greater transparency of data is at the heart of enabling the public to hold politicians and public bodies to account. Publication of data should also be used to open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets. You already publish monthly expenditure online.

The streamlined Best Value Statutory Guidance sets out Government's expectations of the way authorities should work with voluntary and community groups and small businesses when facing difficult funding decisions. The guidance, taken with measures such as Community Right to Challenge and the Localism Bill, aims to promote authority leadership in providing a level playing field for all, including local, voluntary and community organisations. Through its performance management arrangements and approach to local consultation the Council is well placed to meet the Government's expectations but will need to ensure its response is proportionate.

# Financial statements and annual governance statement

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**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

I issued an unqualified opinion on the Council's accounts on 27 September 2011. This was in line with the statutory deadline. I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. In my opinion the accounts give a true and fair view of your financial affairs and of your income and expenditure for the year.

Before giving my opinion I reported to those charged with governance, in this case the Audit and Risk Committee, on the issues arising from the 2010/11 audit. I presented this report on 26 September 2011 and only the most significant issues arising are repeated in this letter.

## **Significant weaknesses in internal control**

I did not identify any significant weaknesses in your internal control arrangements.

## **Treasury management**

In October 2008, several Icelandic banks went into administration. Many councils and other public bodies were directly affected by the collapse of the Icelandic institutions. The Council had an investment of £2.5 million with a United Kingdom regulated subsidiary of an Icelandic Bank at the time of the collapse but was fully compliant with its Treasury Management policy at the time the investments were made.

You have reviewed your Treasury Management policies to ensure this area is kept under close control and to avoid exposure to unacceptable levels of risk. Latest reports confirm that over £1.6 million has been re-paid and indicate that approximately £2.15 million of the investment will be returned over the next few years. You have sufficient reserves to meet any further loss and believe the short and medium term impacts are manageable. Your Medium Term Financial Plan has appropriately reflected this.

## International Financial Reporting Standards

The presentation of the accounts changed for 2010/11 with the implementation of new requirements for the accounting for local government bodies in accordance with International Financial Reporting Standards. The introduction of IFRS meant there were significant changes to the content and format of the financial statements. The 2009/10 financial accounts also required restatement.

Because of your extensive preparations, although the introduction of these standards has presented a significant challenge to the Council, the finance team were able to produce a draft set of accounts that was in line with good practice examples. As a result of this work, the financial statements had few errors and the working papers were comprehensive. This was a better position than many councils nationally who had difficulties with the introduction of IFRS.

## Whole of Government Accounts

The Whole of Government Accounts (WGA) cover approximately 1,300 bodies. They aim to provide commercial style accounts for the public sector and are prepared by the Treasury. To support these accounts, I am required to submit a consolidation pack that summarises the Council's financial statements in a consistent way with all other local government bodies. I submitted this consolidation pack with a statement confirming that it was consistent with the Council's audited financial statements on 29 September 2011.

## Certification of returns

The Council prepares grant claims to receive central funding for some services it provides. The Council has made three grant claims in 2010/11, the largest being for benefit payments made. All claims were submitted for audit before the national deadlines and adequate working papers were provided to support the claims. I have completed the certification of two claims relating to the Council at this time:

- NDR3 Return; and
- Disabled Facilities Grant.

The NDR3 Return was amended to reduce the amount to be paid to the national pool by £0.063 million prior to certification and submission.

The other claim, which I have qualified, is the Housing Benefit and Council Tax Benefits Subsidy claim. Given the complexity of the Housing Benefit scheme and the volume of transactions it is not uncommon for this claim to be qualified. The qualification will not impact on the level of subsidy paid to the Council in 2010/11.

## **National Fraud Initiative**

The Council participates in the National Fraud Initiative (NFI). This is a national exercise that matches electronic data between audited bodies to prevent and detect fraud, including police authorities, local probation boards, fire and rescue authorities as well as local councils.

I reviewed the Council's progress investigating the matches identified and officers believe you should be able to complete your investigations by the end of the year. You have until January 2012 to complete your work on the remaining matches.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council's budget has set out a clear plan to deliver the necessary savings plans. I have therefore reviewed your medium term financial strategy within the context of the impact of the comprehensive spending review and your decision to have frozen Council Tax in 2011/12.</p> <p>I found your financial planning assumptions to be reasonable and reported financial data to be used effectively in monitoring financial performance. The ongoing savings programme across all areas of the Council is on-target for 2011/12.</p> <p>Income sources have held up less well this year. Reports for the six months to September 2011 show:</p> <ul style="list-style-type: none"> <li>■ commercial rent income £0.195 million below budget;</li> <li>■ land charges search fees and development control £0.210 million below budget; and</li> <li>■ car parking income £0.065 million under budget.</li> </ul>



Although you had set aside £0.2 million as shortfalls in income were anticipated, the shortfalls so far have been greater than anticipated.

The largest income shortfall, rental income, is largely due to units in Lancaster Buildings that are un-let. The Property Section is actively marketing this space together with a national marketing agent. As a result of efforts, the largest of the three shop units should be occupied shortly. The Property Section will continue to market the remaining two units.

Planning income is variable and new developments could improve the position.

Car park income had held up during the initial parts of the recession, but is now reducing. In response, officers are undertaking a car park review to understand the reasons for the fall and see if action can be taken to either improve the use of car parks or find additional efficiencies.

In my view, you have demonstrated that the Council, from members, through Cabinet and the management team, to those delivering services, has been proactive in responding to challenges which should leave you relatively robustly positioned for the future.

## **2. Securing economy efficiency and effectiveness**

### **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council continues to prioritise resources within tighter budgets and has set out the vision, approach and detailed plans to reduce costs in accordance with the Council's corporate objectives. You have identified efficiencies to be made by undertaking service reviews and the documents and processes are well developed, demonstrating a clear and effective approach to reviewing services in order to produce efficiencies in line with corporate objectives.

The Council has revamped and improved its corporate plan for 2011/12. It contains, among other things, a sharper single vision and takes account of current environmental issues as well as political issues such as the Big Society. More importantly, the plan puts more emphasis on accountability for members, with individual portfolio holders being named as being responsible for specific areas of activity and performance. The Corporate Plan will contain a much reduced number of performance indicators and Business Plans require a more focused and simplified approach to setting outcomes and targets.

You have also actively managed your assets as part of your accommodation strategy with plans to use spare capacity in your offices to house other public services. Although you will complete these initiatives in 2011/12, much of the work to secure these partnerships took place during 2010/11 showing arrangements operate effectively.

You are working closely with a number of other councils to look at areas where you can learn from their approach to change and transformation, in particular, playing an active role in the 'Staffordshire One Place' programme. You are learning from the 'Let's work together' programme in Lichfield, and are playing a leading role in the joint Staffordshire customer relationship management system development.

A key area for improvement in recent years has been your Waste Management Service. Your new collection strategy has delivered over £0.5 million of savings and increased your recycling rates from 27 per cent in 2009 to over 50 per cent in 2010/11. In recognition of this achievement, the Council won the Waste Management Award at the Government Business Awards in 2010/11. Subsequently the Council has also won the Local Authority Recycling Advisory Committee National Award 2011, been named national recycling champion at the Government Business Awards and named 'Local Authority of the Year' at the Plant and Waste Recycling Awards.



# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Executive Director (Resources and Support Services). I will present this letter to the Audit and Risk Committee on 30 January 2012 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit Fee Letter	April 2010
Governance Report	September 2011
Annual Audit Letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Tony Corcoran  
District Auditor  
November 2011

# Appendix 1 - Fees

	Actual	Proposed	Variance
Scale fee	127,080*	127,080	0
Non-audit work	0	0	0
<b>Total</b>	<b>127,080</b>	<b>127,080</b>	<b>0</b>

\* The Audit Commission is paying a rebate of £6,697 to you, so you will pay £120,383.

# Appendix 2 - Glossary

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## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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- any director/member or officer in their individual capacity; or
- any third party.



## CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT

**Submitted by:** Executive Director – Resources and Support Services

**Portfolio:** All

**Ward(s) affected:** Non Specific

### **Purpose of the Report**

To receive the Audit Commission's Annual Report in respect of the Certification of Claims and Returns for the Borough Council for 2010/11.

### **Recommendation**

**That the Audit Commission's Annual Report on the Certification of Claims and Returns 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.

#### **1. Background**

- 1.1 The Audit Commission's report (attached as an Appendix) summarises the findings from the certification of 2010/11 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 Audit Commission's 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 the Audit Commission's report on the Certification of Claims and Returns.

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

- 5.1 The Audit Commission's external audit function gives assurance on the stewardship of public resources. Audit Commission reports provide external challenge to the Council through which can be demonstrated improvement in relation to the Corporate Priority of "Transforming our Council to Achieve Excellence".

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 of Claims and Returns – Annual Report – January 2012.

# Certification of claims and returns - annual report

Newcastle Under Lyme Borough Council

Audit 2010/11



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<b>Introduction</b>	<b>3</b>
<b>Summary of my 2010/11 certification work</b>	<b>4</b>
<b>Results of 2010/11 certification work</b>	<b>5</b>
<b>Summary of certification fees</b>	<b>7</b>



# Introduction

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**Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.**

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Audit Commission does not make certification arrangements and I am not required to undertake work (there were no claims below this threshold at the Council in 2010/11);
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

# Summary of my 2010/11 certification work

**The Authority has performed well in preparing claims and returns. There were no significant amendments to the claims although I did issue qualification letters on your Housing and Council Tax Benefit claim and Disabled Facilities claim.**

I undertook work on three claims and returns with a total value of £62 million for the year ended 31 March 2011 (£63 million in 2009/10) that the Council was required to submit for certification. Your Housing and Council Tax Benefits and National Non-Domestic Rates claims required amendment and qualification letters were also issued for the Housing and Council Tax Benefit and Disabled Facilities Claim. The fees charged for 2010/11 were £23,644 compared to £26,701 in 2009/10 (Table 1).

Table 1: **Summary of 2010/11 certification work**

<b>Number of claims and returns certified</b>	
Total value of claims and returns certified	£62m
Total number of claims and returns certified	3
Number of claims and returns amended due to errors	2
Number of claims and returns where I issued a qualification letter	2
Total cost of certification work	£23,644

# Results of 2010/11 certification work

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## **This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.**

The Council needs to manage the claiming of grant income carefully. If you cannot demonstrate that the conditions which are attached to these grants have been met then the funding may be at risk. In particular this means:

- providing a satisfactory control environment over each claim and return; and
- ensuring the Council can evidence that it has met the conditions attached to each claim.

Maintaining a strong control environment, providing clear supporting working papers and responding promptly (where applicable) to audit queries helps us to complete our work in an efficient and effective manner, which minimises the fees that are charged. We take this into account when reviewing your claims. Our considerations include the complexity and value of a claim, your systems of internal financial control, the quality of working papers and the experience of the staff compiling the claim.

The overall arrangements of the Council are good and the quality of the information held to support the claims has been maintained. Of the three claims that required certification in 2010/11, your Housing and Council Tax Benefits and National Non-Domestic Rates claims required amendment and qualification letters were also issued for the Housing and Council Tax Benefit and Disabled Facilities Claim (Table 2). Given the complexity of the Benefits scheme and the volume of transactions involved it is not uncommon for amendments to be made and a qualification letter issued on this type of claim. The issues reported were consistent with those that have been reported at other councils and occurred against the background of your Benefits Team implementing a new IT system. The relatively minor nature of the amendments and issues raised in the qualification letter reflect a strong performance by the team. The amendment to the Non-Domestic Rates claim relates to an error made compiling the claim and the report on the Disabled Facilities Grant arose due to an error on a cell pre-filled by the government department and was not an error by Authority staff.

Table 2: Claims and returns

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing and council tax benefit scheme	£35,099,063	Not required to be assessed as the Audit Commission prescribes a specific approach known as HB COUNT.	Increase of £69,180	Yes. Initial testing identified a number of errors which were either amended or reported as required by the certification instruction.
National non-domestic rates return	£26,810,837	No. The Council implemented a new NDR system part way through the year. In these circumstances we are required to undertake additional tests in line with the certification instruction.	Decrease of £63,300 in the amount payable to the national pool.	No
Disabled facilities	£504,000	Yes. The claim is not complex and the control environment has not changed.	None Required	Yes. Testing identified that an additional grant allocation had been received that had not been identified by the Government Department on the electronic system. We reported this to the department for information.

In my 2009/10 letter I noted your arrangements were sound for the production of grant claims and returns and made no recommendations for improvement.

I am of the view that given the good performance in 2010/11 there are no recommendations I am required to make. You need to continue to monitor the performance of the Revenues and Benefits Service and ensure that it maintains the sound arrangements it has in place for the production and audit of all of the relevant grant claims and returns.

# Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 3: Summary of certification fees

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	£18,462	£19,749	This is the second year where authority staff undertook both the initial and extended testing using our workbooks, enabling further efficiencies to be made.
National non-domestic rates return	£3,117	£2,135	Increase in testing required because of audit approach.
Disabled facilities	£1,120	£1,157	
Advantage West Midlands	£0	£2,715	No claim submitted for audit in 2010/11
Grant Claims Report	£945	£945	
<b>Total</b>	<b>£23,644</b>	<b>£26,701</b>	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



# Agenda Item 9

## **QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT FUNDAMENTAL RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 OCTOBER TO 31 DECEMBER 2011**

**Submitted by:**           **Audit Manager**

**Portfolio**                   **Resources and Efficiency**

**Ward(s) affected**       **All**

### **Purpose of the Report**

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.

### **Recommendation**

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

### **Reasons**

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. Background**

- 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 control.
- 1.4 Assurance is provided on an annual basis as part of the Annual Report on the Internal Audit Service. It is now 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 In the third quarter there were five high risk recommendations which were due for review, all of which have previously had one target date change and as such have been reported separately to the Chair and Vice Chair of the Committee.
- 2.2 A copy of the Assurance Summary for December 2011 is attached as an appendix.
- 2.3 It is pleasing to report that at the end of quarter 3 all directorates were showing an assurance level of substantial and as such at this stage in the financial year there are no immediate cause for concern with regards to outstanding actions in respect of audit recommendations.

## 3. **Reasons for Preferred Solution**

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

## 4. **Outcomes Linked to Sustainable Community Strategy and 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 2010 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**

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**

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**

Appendix - Audit Recommendations Summary of Assurance for December 2011

12. **Background Papers**

Internal Audit PI and Assurances file

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**Audit Recommendations**  
**Summary of Assurance**

**December 2011**

	Full	Substantial	Limited	Little
<b>Chief Executives Directorate</b>		√		
<b>Resources and Support Services Directorate</b>		√		
<b>Operational Services Directorate</b>		√		
<b>Regeneration and Development Directorate</b>		√		

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 95% of all recommendations implemented as the agreed performance measure for 2010/11.

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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## INTERNAL AUDIT PROGRESS REPORT – QUARTER 3 2011/12

**Submitted by:**            **Audit Manager**

**Portfolio**                    **Resources and Efficiency**

**Ward(s) affected**        **All**

### **Purpose of the Report**

To report on the work undertaken by the Internal Audit section during the period 1 October to 31 December 2011. 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.

### **Recommendation**

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

### **Reasons**

The role of Internal Audit is key 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 2011/12 allows for 491 days of audit work.

1.2     This is the second 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 75% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 40% in the third quarter. Achievement of the 40% is dependent on a full complement of staff from 1 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; 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 2011).

### 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 2011 827 recommendations had been made of which 746 have been implemented, 90%, the target is 96% by the year end. Due to the follow up work completed by the Audit Team during quarter 3 there has been a considerable improvement on the recommendations implemented during this quarter. The figure quoted in quarter 2 was 83%.

### 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 2010/11 is 86%.

Of the 8 surveys sent out in quarter 3, none have been returned. The satisfaction level remains therefore, as it was at the end of quarter 2 at 85%. The issue of non return of satisfaction surveys has been raised with other Staffordshire Internal Audit Teams where similar patterns have become to emerge. The current format of the survey sent to auditees is based on CIPFA guidance and best practice and the used throughout the majority of authorities within Staffordshire and the West midlands. There has been an acknowledgement that this is now perhaps a little dated and at the next meeting of the Staffordshire Chief Auditors Group we are looking to review and perhaps redesign the present survey used with a view to developing a more user friendly format.

#### **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 81%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 45% 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 2011

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:

<b>Well Controlled</b>	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)
<b>Adequately controlled</b>	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.
<b>Less than adequately controlled</b>	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.
<b>Poorly controlled</b>	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 1 October 2011. The attached appendix provides fuller details of these audit reviews under each service area.

<b>AUDIT REVIEW</b>	<b>AUDIT OPINION</b>	<b>Risk Category</b>
<b>Chief Executives</b>		
Insurance	Well Controlled	B
<b>Resources &amp; Support Services</b>		
Payroll – key controls	Well Controlled	A
Treasury Management – key controls	Well Controlled	A
Housing Benefits Qtrly Testing	Well Controlled	A
Code of Connection Compliance	Adequately Controlled	B
Kidsgrove contact Centre	Well Controlled	A
<b>Operational Services</b>		
Fleet Management	Well controlled	B
Play area refurbishment – Phase IV	Well Controlled	A
<b>Regeneration and Development</b>		
Economic Regeneration & Development	Adequately controlled	B
Markets	Adequately Controlled	B
Replacement Pavillion Chesterton	Well Controlled	A
Refurbishment of Lower Ground Toilets Civic Offices	Well Controlled	A
Refurbishment of Offices – Lancaster Buildings	Well Controlled	A

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 the Audit Team has spent a total of 41 days undertaking a number of 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 Sustainable Community Strategy and 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 2010 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**

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**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

12.1 Agreement of the Internal Audit Plan for 2011/12 (Audit and Risk Committee 31 January 2011).

13. **List of Appendices**

Appendix - Internal Audit Plan 2011/12: Progress to the end of Quarter 3 – 2011/12.

14. **Background Papers**

Internal Audit Plan & PI's File (GA004/11).  
APACE files 2011/12

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Internal Audit Plan 2011/12Progress to the End of Quarter 3 – 2011/12Chief 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	
Insurance	B	Well Controlled	0	1	1	2

The main issues arising from the above audits can be summarised as follows:

**Insurance** – The main objectives of this review is to ensure that there are adequate arrangements in place for insurance across all areas of the Council. In addition the audit will ensure that all claims are dealt with consistently and that all information held in respect of claims is complete and accurate. On the whole the audit found the area of insurance to be well controlled. Recommendations made were in relation to a review of historical data held and to assess the relevance of this and also in relation to the production of reports in respect of the insurance fund being reported to the Corporate Governance Working Group on a periodic basis.

Resources and Support Services 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	
Payroll – key controls	A	Well Controlled	0	2	0	2
Treasury Management – key controls	A	Well controlled	0	0	0	0
Housing Benefits – quarterly testing	A	Well Controlled	0	0	0	0
Code of Connection Compliance	B	Adequately Controlled	1	1	5	7

The main issues arising from the above audits can be summarised as follows:

**Payroll – key controls** - This was a 5 day review that examined the key controls identified within the Payroll function. The main controls were identified as, ensuring that all payroll information is properly and accurately recorded, held securely and that all payments are made in accordance with the required PAYE regulations. In addition a review of the pension information provided to Staffordshire County Council was also completed. From a review of these controls no major issues were identified. The 2 recommendations

made were in relation to the updating of procedure notes and also the verification of the establishment listing by Executive Directors and Heads of Service

**Treasury Management – key controls** - This was a 5 day review that examined the key controls identified within the Treasury Management function. The main controls were identified as being ensuring that all the Councils borrowing and investments are in line with all the necessary policies and regulations, that all borrowings are strictly controlled and that records maintained are complete and accurate. From a review of these controls no major issues were identified.

**Housing Benefits – quarterly testing** - This review examines a sample of Housing Benefit Claims on a quarterly basis to ensure that applications are being processed correctly. This review supplements the main audit of the Housing Benefits function which is completed annually. From the sample of claims examined no issues were found and as such no recommendations were found.

**Code of Connection Compliance** - The audit was undertaken by Fit Business Solutions who are the Councils approved computer audit specialists. The review examined the submission made by the council in respect of the Governments Code of Connection and to ensure that where appropriate action was being taken to address any issues that arose from the submission. The review looked at this area from 2 perspectives; firstly from the governance arrangements internally in terms of the code of connection submission and secondly to ensure that an action plan was in place to address any issues that arose from the submission in order that these could be completed prior to the next submission in February/March 2012. Findings revealed that there was an action plan to address issues raised in the submission however concerns were identified in respect of the internal governance issues and where information should be reported. It should be noted that Code of Connection is now a standing agenda item on the Information Security Group.

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 3 the following final payment has been audited.

Contract Name	Contractor	Value of Work	Audit Findings
Kidsgrove Contact Centre	Paragon	£159,161.53	No problems identified, contract delivered within budget

**Operational Services Directorate**

**Areas completed in Quarter 3 of the 2011/12 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	
Fleet Management	B	Well Controlled	0	1	0	1

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

**Fleet Management** - This review examined the various arrangements in place in terms of the management of the council’s vehicle fleet. This included a review of the arrangements in respect of Fuel deliveries, MOT testing and the security and maintenance of the garage workshop equipment. Overall the management of the council’s fleet is well controlled and no major problems were identified at the time of the audit. Just one

recommendation was made which related to a review and update to the job descriptions and person specifications for the staff employed within the garage workshop.

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 3 the following final payment has been audited.

Contract Name	Contractor	Value of Work	Audit Findings
Play Area Refurbishment – Phase IV	N T Killingley	£94,704.12	No problems identified, contract delivered within budget

### **Regeneration & Development Services**

#### **Areas completed in Quarter 3 of the 2011/12 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	
Economic Regeneration & Development	B	Adequately Controlled	0	1	0	1
Markets	B	Adequately Controlled	0	3	1	4

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

**Economic Regeneration & Development** - This review examined the economic development strategy that is in place for the council to ensure that it appropriate to promote and develop the Borough through working in partnership with others. Overall sound and adequate arrangements were found to be in place, there was just one issue raised during the audit and this related to ensuring that agreements with clear objectives and terms of reference are in place for all the partners that the council is currently working on with regards to the area of economic regeneration.

**Markets** - the objectives for this audit were to ensure that the markets function is carried out in accordance with the council's financial regulations with regards to the collection and banking of income, insurance provision and that risk assessments are regularly reviewed and updated as necessary. No major weaknesses were identified during the audit, with regards to the recommendations made these included the review and update of the risk assessment in respect of the market function, that consideration should be made with regards of introducing direct debits for stall holders and also a review of the levels of income and expenditure in respect of the markets budget.

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 3 the following final payments have been audited:

<b>Contract Name</b>	<b>Contractor</b>	<b>Value of Work</b>	<b>Audit Findings</b>
Refurbishment of Lower Ground Toilets – Civic Offices	Kettle & Talbott	£68,223.44	No problems identified, contract delivered within budget
Refurbishment of offices – Lancaster Buildings	Thomas Vale	£2,144,333.00	No problems identified, contract delivered within budget

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**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.*

## INTERNAL AUDIT PLAN 2012/13

**Submitted by:**        **Audit Manager**

**Portfolio:**            **Resources and Efficiency**

**Ward(s) affected:**    **All**

### **Purpose of the Report**

To inform Members of the proposed Internal Audit Plan for 2012/13 and to seek their approval as to its contents.

To agree with members the reporting arrangements for performance against the 2012/13 proposed plan.

### **Recommendations**

**(a) That the Internal Audit Plan for 2012/13 is approved.**

**(b) That Members agree to the continuation of the reporting arrangements as set out in the report.**

### **Reasons**

Under CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 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.

## **1. Background**

- 1.1 The Local Government Accounts and Audit Regulations 2010 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 In considering planning and resource requirements the expectations of the Audit Commission's District Auditor in terms of the 'Managed Audit' have also been considered. This is where Internal Auditors undertake the type and level of work previously undertaken by the District Auditor under his supervision. The aim of this is to increase the effectiveness of Internal Audit activity and the extent to which the District Auditor can and will rely upon their work and ensuring minimum duplication of audits and minimisation of cost.
- 1.3 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 the District Auditor will 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
- 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.

1.4 In reviewing the effectiveness of the Internal Audit function, external inspectors such as the Audit Commission 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 2012/13**

- 2.1 The Internal Audit Plan is calculated in terms of audit days, 534 for 2012/13, see Appendix A 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 CIPFA Code of Practice for Internal Audit 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 assignment.
- 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 activities 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 analysis 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 2012/13 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 984 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 2012/13 have been calculated at 534. 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 235 days and 299 'B' risk areas.
- 2.4 Given the resources available for 2012/13 a total of 199 'B' risks and 90 'C' risks have had to be reduced out of the plan. In addition to these days a total of 77 days within the plan were identified as areas that are no longer relevant and as such needed to be deleted from the planning model, these included areas such as Corvu (performance management system), the Pericles Replacement Project, Concessionary travel and the Neighbourhood Management Pathfinder. Also a further 84 days were reduced within the planning model as a result of adjustments to the number of days required for the audit of the council's key financial systems. This was as a result of previous discussions with the District Auditor where it was agreed that for 2011/12 onwards the systems would be reviewed in full on a rotational basis with half of the systems being reviewed in one year, the rest being reviewed in the following year. Where a full review of a key financial system is not scheduled to be completed, a review of the key financial controls will be undertaken during this year. 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.
- 2.5 During the course of 2012/13 this risk model will continue to be reviewed to ensure that it continues to reflect the demands of improvement changes in relation to the Council's priorities.

### **Internal Audit Performance Reporting**

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

### **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 2012/13 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.

### **Proposal**

- 4.1 In agreeing the proposed Audit Plan for 2012/13 members are agreeing to a review of all audit areas listed, following a risk assessment based on the information available for review during 2012/13 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 Sustainable Community Strategy and 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 2010 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**

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 4 posts, which include the Audit Manager and 3 operational staff providing, a combined total of 504 days in addition 30 days are brought in from specialist external computer auditors,

9.2 Staffing levels within the audit team have been reduced by 1 FTE for 2012/3; this is following the decision of one staff member not to return to work following her maternity leave. The decision not to replace this post at this present time has been based on a benchmarking exercise across other Staffordshire Authorities which showed that staffing levels had reduced across all organisations over the last 2 years therefore resources within the present audit team are comparable with other teams at similar sized authorities.

9.3 The provision of computer audit for 2012/13 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.

9.4 The Audit Plan for 2012/13 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**

Not applicable.

12. **Earlier Cabinet/Committee Resolutions**

Not applicable.

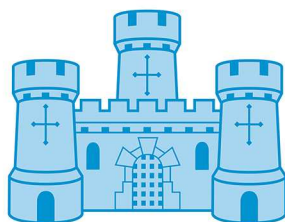
13. **List of Appendices**

Appendix A - Proposed Internal Audit Plan 2012/13  
Appendix B - A risk assessment conducted against each audit area  
Appendix C - Risk Assessment in respect of the Audit Service

14. **Background Papers**

Internal Audit Plan file

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# NEWCASTLE·UNDER·LYME

## BOROUGH COUNCIL

### Internal Audit Plan 2012/13

<b>Audit Areas</b>	<b>Risk</b>	<b>Days</b>
<b>Chief Executives</b>		
Risk Management	B	20
Communications	B	10
Elections	B	8
Land Charges	B	10
Mayors Charity Accounts	A	3
Third Sector commissioning	B	7
<b>Chief Executive Total Days</b>		<b>58</b>
<b>Resources &amp; Support Services</b>		
Post Opening	A	2
Multi Functional Devices Review	B	5
Creditors	A	20
Treasury Management	A	10
Asset Management ( Capital )	A	5
General Ledger – Main Accounting	A	15
United Charities, Almshouses & Barracks Trust	A	5
Payroll	A	20
Data Protection	B	5
Human Resources	A	10
Removable Media*	B	7
Council Tax	A	5
Housing Benefits	A	10
National Non Domestic Rates	A	20
Sundry Debtors	A	20
Cash Management	A	5
National Fraud Initiative	B	10
ICT Developments*	B	8
Information Security	A	8
Remote Access & Support*	B	7
ICT Services – Access & Controls	B	10
E Payments	B	5
<b>Resources and Support Services Total Days</b>		<b>212</b>

<b>Operational Services</b>		
Summer Play scheme (SPLAT)	B	10
Museum	B	10
Application Review – Gladstone*	B	8
Jubilee 2		
Operational Services Administration	A	20
Streetscene	B	10
Tree Management	B	20
Bereavement Services	B	5
Current & Final Accounts	B	15
Park Attendants	A	10
	A	3
<b>Operational Services Total Days</b>		<b>111</b>
<b>Regeneration &amp; Development Services</b>		
Current & Final Accounts	A	10
Public Building Maintenance	B	15
Property Management – Asset Disposals	B	15
Health & Safety	B	10
Evidence collection & storage	B	5
Regeneration & Development Administration	B	10
Homelessness, Housing Advice & Strategy	B	5
Ryecroft Development	A	5
Fixed Penalty Notices & Recovery of Fines	B	5
<b>Regeneration and Development Services Total Days</b>		<b>80</b>
<b>Corporate Functions</b>		
Gifts, Hospitality & Outside Interests	A	5
Performance Management	A	10
Scale of Fees & Charges	B	10
Corporate Governance	B	10
Partnerships	B	10
Procurement	A	20
Email & Internet Use	B	8
<b>Corporate Functions Total Days</b>		<b>73</b>
<b>Total Days for 2012/13</b>		<b>534</b>

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

**RISK 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.

<b>AUDIT AREA</b>	
<b>FILE REFERENCE</b>	
<b>AUDITOR</b>	

	<b>RISK ELEMENT</b>	<b>SCALE OF QUALIFICATION</b>	
	<b>INTERNAL CONTROL QUALITY (25%)</b>		
1	<b>Segregation of duties</b>		
	Total control over staff activities (e.g. in house development in a sizeable, well 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	<b>Documentation</b>		
	Fully documented and up to date	1	
	Partial documentation but not necessarily up to date	2	
	Poor/ absent documentation	3	
3	<b>Quality / reliability</b>		
	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	
	<b><i>N.B. If There Is No Previous Experience Of The Area Or The Internal Control Quality Is Not Known – Enter A Score Of 2</i></b>		

	<b>RISK ELEMENT</b>	<b>SCALE OF QUALIFICATION</b>	
	<b>CRITICALITY / MONETARY FACTORS (30%)</b>		
1	<b>Criticality</b>		
	Insignificant impact on operational / strategic plan	1	
	Partial impact on operational / strategic plan	2	
	Significant impact on operational / strategic plan	3	
2	<b>Expenditure</b>		
	£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	<b>Income</b>		
	£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	<b>Stores</b>		
	None	1	
	Below 1,000	2	
	Above 1,000	3	
5	<b>Transactions</b>		
	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	



	<b>RISK ELEMENT</b>	<b>SCALE OF QUALIFICATION</b>	
	<b>ENVIRONMENTAL CHANGE (20%)</b>		
1	<b>Personnel Structure</b>		
	Static workforce	1	
	Low level / low number of changes	2	
	High turnover – staff / management	3	
2	<b>Systems</b>		
	Static	1	
	Minor enhancements	2	
	New Systems	3	
3	<b>Growth</b>		
	Static	1	
	Anticipated increase / decrease	2	
	Unexpected or very significant growth	3	
	A significant increase in growth is approximately 20%		
	<b>Incidence of local and national fraud</b>		
	Minimal	1	
	Significant	2	
	High	3	
4	<b>COMPLEXITY (10%)</b>		
	<b>Systems (computer or manual)</b>		
	Simple manual or stand alone	1	
	Fully integrated / automated	2	
	Large number of separate systems	3	
	<b>Technical (area under audit)</b>		
	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	<b>LEGAL AND REGULATORY CONSIDERATIONS (5%)</b>		
	No recent new legislation and / or no specific problems monitored in the press release	1	

	<b>RISK ELEMENT</b>	<b>SCALE OF QUALIFICATION</b>	
	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	<b>POLITICAL SENSITIVITY</b>		
	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		

Risks, controls and actions Audit

as at 13/01/12

Risk Identified	Potential Consequences	Impact	Risk Rating	Control Measure	Final Risk Rating	Further Action Required
Audit						
Medium Risk recommendations not being implemented		1	4	Communication process in place Escalation process for information reminders Reminders for information given by email and telephone	7	Internal Audit protocol document to be circulated
Low Risk recommendations not being implemented		1	7	Communication process in place Reminders for information given by email and telephone	7	Internal Audit protocol document to be circulated
Lack of resources	affect on use of resources, failure to give full assurance on internal controls, affect on the annual governance statement.	3	6	Employee Development interviews Flexible working Homeworking Market forces used on short term basis of 3 years Reallocate audit plan to free up capacity Audit manual Agency staff used when necessary Knowledge transfer	6	Raise with Kelvin Turner Review audit plan
Information provided not accurate or timely		3	9	Notification of Audits given	6	Staff development

Risk Count: 14

Risk Identified	Potential Consequences	Impact	Risk Rating	Control Measure	Final Risk Rating	Further Action Required
Audit				Reminders for information given by email and telephone Escalation process for information reminders Verification of the source of the information Analysis of information provided		Internal Audit protocol document to be circulated
Failure to retain key staff with experience & skills	Failure to provide the correct information and service to members and staff.	3	9	Flexible working Business continuity identified through process mapping Market forces used on short term basis of 3 years Employee Development interviews Homeworking	6	
Major investigation taking priority over audit plan	Failure to deliver on risk based audit plan	3	6	Agency staff used when necessary Reallocate audit plan to free up capacity Officers trained in investigation procedures Outside investigators employed as and when	6	Shared service arrangements with other authorities for assistance with investigations and/or the audit plan.

Risk Count: 14

Risk Identified	Potential Consequences	Impact	Risk Rating	Control Measure	Final Risk Rating	Further Action Required
Audit				Investigating procedures training undertaken		
High Risk Recommendations not being implemented		3	6	Communication process in place Escalation process for information reminders 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	6	Internal Audit protocol document to be circulated
Lack of co-operation from Managers		3	6	Communication process in place Escalation process for information reminders Notification of Audits given 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	6	Internal Audit protocol document to be circulated

Risk Count: 14

Risk Identified	Potential Consequences	Impact	Risk Rating	Control Measure	Final Risk Rating	Further Action Required
Audit						
Failure to deliver managed audit requirement of the Audit Commission		3	3	Audit Plan document Improve relationships and have regular meetings between District Audit and Audit Manager Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	6	
Failure to recognise/be aware of fraud/corruption		3	6	Anti-fraud and anti-corruption strategy Financial Regulations Fraud manual for Heads of Service Fraud Awareness - A Guide for Managers Money laundering policy Standing Orders Countering Fraud and Corruption Staff Survey Member Code of Conduit to be followed Employee Code of Conduct to be followed Fraud Response Plan	6	Staff training using Moodle Results of staff survey to be analysed Policies need to be revised for the Bribery Act

Risk Count: 14

Risk Identified	Potential Consequences	Impact	Risk Rating	Control Measure	Final Risk Rating	Further Action Required
Audit				Whistleblowing policy and fraud response plan for parties contracting with the Council		
Failure to fully identify all relevant controls		3	6	Access to web sites for information Audit manual CIPFA matrices Information sharing with other authorities	6	Refresher training in CIPFAs systems based audot methodology
Long-term sickness		3	6	Homeworking Knowledge transfer Agency staff used when necessary Employee Development interviews Absence management policy	3	
Failure to provide efficient staff capacity to deal with unplanned investigations	Failure of staff to follow correct procedures, leading to damage to Council reputation, adverse publicity, and loss of confidence from outside bodies and staff.	3	9	Outside investigators employed as and when Reallocate audit plan to free up capacity Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	3	Shared service arrangements with other authorities for assistance with investigations and/or the audit plan.

Risk Count: 14

Risk Identified	Potential Consequences	Impact	Risk Rating	Control Measure	Final Risk Rating	Further Action Required
Audit				Corporate Governance issues reinforced through the Corporate Governance Working Group and associated processes Officers trained in investigation procedures Investigating procedures training undertaken New Staffordshire Chief Auditors Group Terms of Reference		
Failure of District Audit to inform of changing policies and procedures	Damage to reputation. Failure to comply with legislation or best practice. Intervention from District Audit or the Law Courts.	3	9	Improve relationships and have regular meetings between District Audit and Audit Manager Communication process in place Audit Plan document Continuing consultation and dialogue with Audit Commission	3	

Risk Count: 14



## **REVIEW OF THE INTERNAL AUDIT STRATEGY 2012 TO 2015 AND THE INTERNAL AUDIT SECTION TERMS OF REFERENCE**

**Submitted by:**        **Audit Manager**

**Portfolio:**            **Resources and Efficiency**

**Ward(s) affected:**    **All**

### **Purpose of the Report**

To seek Members approval to the revised Internal Audit Strategy and Terms of Reference which have been reviewed as part of the Audit Planning process for 2012/13.

### **Recommendation**

**That the Internal Audit Strategy 2012 to 2015 and the Internal Audit Section's Terms of Reference be approved in their revised forms.**

### **Reasons**

These documents are reviewed and updated annually to ensure compliance with the CIPFA Code of Practice for Internal Audit.

## **1.     Background**

- 1.1     In accordance with the CIPFA Code of Practice for Internal Audit 2006, the Audit Manager is required to produce an Audit Strategy which sets out how the Internal Audit Service will be delivered in accordance with the terms of reference and how it links to the organisational objectives and priorities. The Code of Practice requires that the Strategy is kept up to date with the organisation and its changing priorities.
- 1.2     The previous Strategy which covered the period 2011 to 2014 was approved by this Committee in January 2011. This document has now been reviewed and updated as set out in the Code of Practice. The updated Strategy covers the period 2012 to 2015 and sets out how Internal Audit will contribute to the Council's review of Corporate Governance arrangements, risk management processes, key internal control systems and how assurance for the annual statement on internal control will be demonstrated. It also establishes the resources and skills required for its delivery and allocation of audit work.
- 1.3     The Terms of Reference for Internal Audit have also been reviewed and updated in accordance with the Code of Internal Audit Practice.

## **2.     Issues**

In accordance with the CIPFA Code of Practice for Internal Audit the documents have been reviewed and updated to reflect the changes that the organisation has recently gone through.

## **3.     Options Considered**

- 3.1     To review and adopt these documents ensures and demonstrates that the Internal Audit Section has mechanisms in place to;

“To deliver a risk-based audit plan in a professional manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make the recommendations to improve it”

- 3.2 Not to adopt these changes would leave the Council open to criticism of not being able to provide a level of assurance on the Councils systems of internal control.

4. **Proposal**

- 4.1 That the Internal Audit Strategy 2012 to 2015 and the Internal Audit Sections Terms of Reference be approved in their revised forms.

5. **Reasons for Preferred Solution**

- 5.1 As option 3.1 above.

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

- 6.1 The documents demonstrate that the Council is committed to ensuring the best use of resources and ensuring that there is provision to give assurance on the adequacy of internal controls. Therefore contributing to it's Corporate Priority of Transforming our Council to Achieving Excellence.

7. **Legal and Statutory Implications**

This report raises no new legal or statutory implications.

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

There are no new financial or resource implications.

10. **Major Risks**

- 10.1 The risk of not having these documents in place would leave Internal Audit open to criticism of not being able to demonstrate how it will deliver a risk-based audit plan in a professional manner, and provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make the recommendations to improve it.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Audit Strategy 2011 to 2014 - Res No 570/11 (Audit and Risk Committee – January 2011)  
Internal Audit Terms of Reference - Res No 574/11 (Audit and Risk Committee – January 2011)

14. **List of Appendices**

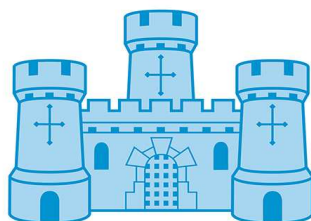
Appendix A - Internal Audit Strategy 2012 to 2015

Appendix B - Internal Audit Terms of Reference

15. **Background Papers**

Audit File Ref GA002

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## NEWCASTLE·UNDER·LYME BOROUGH COUNCIL

### Newcastle under Lyme Borough Council Internal Audit Services

#### STRATEGY 2012 TO 2015

## 1. INTRODUCTION

- 1.1 This document outlines the strategy for Internal Audit for 2012 to 2015.
- 1.2 It consolidates and develops previous internal strategies.
- 1.3 The strategy will be reviewed annually as part of the Internal Audit Reporting Protocol.

## 2. BACKGROUND – THE COUNCIL

- 2.1 Newcastle under Lyme Borough Council aims to deliver excellent, sustainable services to its communities
- 2.2 To assist in the delivery of this aim there are four defined areas of priority:
  - **Creating a Cleaner, Safer and Sustainable Borough**
  - **Creating a Borough of Opportunity**
  - **Creating a Healthy and Active Community**
  - **Transforming our Council to Achieve Excellence**
- 2.3 To endorse the aim and priorities Newcastle under Lyme Borough Council continues to strive to meet the core values of **equalities, best value, fairness, openness, honesty, community and partnership involvement and value added by staff**. Any activities of the Council and the operation of the Members and employees in their duties are underpinned by these core values.
- 2.4 The organisation continues to strive for excellence which will improve overall performance of the authority.
- 2.5 The work of Internal Audit aims to contribute to and assist management with the achievement of these aims.

### 3. BACKGROUND – INTERNAL AUDIT SERVICES

- 3.1 Corporate strategies and priorities significantly influence the environment within which Internal Audit operates.
- 3.2 In addition the Service is part of a Relationship Manager approach with the Audit Commission (joint working between internal audit, external audit and the inspection agencies).
- 3.3 Other external influences affecting the service include Standards, Ethics, Corporate Governance and other legislation affecting local government.
- 3.4 Internal Audit's Best Value review identified that there was a need for the provision of IT audit and due to the increased technology within the Council it had become an integral part of audit work. The retention or training of such skills internally was not cost effective. As a result since the review external specialists have been employed to cover IT audits.

### 4. INTERNAL AUDIT STRATEGY

- 4.1 The overall strategy of Internal Audit is:

**“To deliver a risk-based audit plan in a professional manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make the recommendations to improve it”.**

- 4.2 The Audit Strategy for 2012/15 follows the Council's strategies, priorities and values. However in addition to supporting these Internal Audit needs to keep ahead of changes and develop to ensure the continued delivery of a quality, appropriate and valued service for all its customers. The remainder of this strategy sets out our main objectives for 2012/15 but will be reviewed and rolled forward annually.
- 4.3 The Terms of Reference of Internal Audit are expanded upon within the Strategy.

### 5. STATUTORY BASIS FOR INTERNAL AUDIT – OUR ROLE

- 5.1 The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. Regulation 6 of the Accounts and Audit Regulations 2006 more specifically requires that “a relevant body shall 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”.
- 5.2 Internal Audit undertakes the statutory Section 151 audit for the Executive Director (Resources and Support Services) in liaison with the District Auditor (external audit). It is an assurance function that primarily provides an objective opinion to the Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the Council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources (The control environment includes all authority operations, resources, services and its responsibilities to other bodies).

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- 5.3 Internal Audit plays a key role in ensuring that the Corporate Governance arrangements within the organisation are sound and provides assurance on the robustness of these arrangements and forms an important part in the production of the Authority's Annual Governance Statement.
- 5.4 In accordance with the CIPFA Code of Practice for Internal Audit, the audit plan is fixed for a period of no longer than one year. It takes into account the requirements of the District Audit and Inspection Agencies. The compilation of the plan has included consultation with service areas and the use of a risk assessment framework to ensure resources are allocated via an appropriate and justifiable method. The plan will be reviewed on a quarterly basis to ensure that any significant changes can be identified and addressed.

## 6. **PROFESSIONAL STANDARDS – HOW WE WORK**

- 6.1 Internal Audit adheres to the CIPFA Code of Practice for Internal Audit in Local Government. Staff are also expected to comply with any other appropriate professional standards.
- 6.2 Internal Audit has well developed procedures and quality standards based upon those set out in CIPFA's Audit Manual for Local Government.
- 6.3 To objectively examine, evaluate and report on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources within the Council so contributing to the pursuit of value for money.
- 6.4 To ensure that appropriate staff are professionally trained and developed and work to the professional standards expected by their professional bodies.
- 6.5 The Audit Manager is responsible for delivering the Internal Audit Service in accordance with the Terms of Reference. To ensure that this can be achieved there are appropriate arrangements for:
- Determining and planning the work to be carried out (i.e. an audit plan based on an assessment of the risk),
  - Providing the resources required to deliver the audit plan (principally the level of staff and external input), the necessary skills (both in general audit and technical areas) and support facilities (such as IT facilities, equipment and management and administration processes)
- 6.6 The Internal Audit Service will be delivered on the basis of an Annual Audit Plan and this is attached as Appendix A. The plan sets out the number of person-days required for Internal Audit to adequately review the areas involved. The overriding objective of this approach is to ensure that Internal Audit is able to present an opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved using a formal risk assessment process. The risk assessment process takes account of a range of strategic, corporate, service and operational risks including those identified through the Risk Management process by the District Auditor) and the views of senior management on these issues. Where resources available are not considered by the Audit Manager to be adequate for such an opinion to be provided, this will be reported to the Council.

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- 6.7 The Plan balances the following requirements:
- The need to ensure the Audit Plan is completed to a good practice level (currently at least 90%)
  - The need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control (on which the District Audit place reliance),
  - The need to appropriately review other strategic and operational arrangements,
  - The need to have uncommitted time available to deal with unplanned issues which may need to be investigated, and
  - To enable positive timely input to assist corporate and service developments.
- 6.8 Progress against the audit plan will be kept under review by the Audit Manager in liaison with the Executive Director (Resources and Support Services). Where there is a need for material changes to the plan (i.e. affecting over 20% of planned assignments) a revised plan will be resubmitted to the Audit and Risk Committee for approval. The Audit and Risk Committee will also be advised of performance against the plan and on relevant performance indicators on an annual basis

## **7. QUALITY**

- 7.1 To deliver a professional, cost effective and competent service which meets customer requirements.
- 7.2 To monitor and review the quality measures and performance targets identified and ensure that they are meaningful to customers.

## **8. HOW WE MAINTAIN OUR INDEPENDENCE**

- 8.1 Internal Audit has no executive role, nor does it have responsibility for the development, implementation or operation of systems.
- 8.2 The Audit Manager shall have right of access to the s151 Officer (Executive Director – Resources and Support Services) but has the right to report directly to the Chief Executive (Head of the Paid Service), Monitoring Officer, Leader of the Council or the External Auditor where necessary.
- 8.3 The Audit Manager shall be entitled to control the content of all written reports.
- 8.4 Within the Council responsibility for internal control rests fully with management who should ensure appropriate and adequate arrangements exist without reliance on the Council's Internal Audit Service. In order to preserve the objectivity and impartiality of the internal auditor's professional judgement, responsibility for implementing audit recommendations in accordance with the timetable they have agreed rests with management.
- 8.5 Internal Audit is responsible to the Executive Director Resources and Support Services for contributing to the delivery of the statutory financial responsibilities, however, Internal Audit remains independent in its planning and operation and has no responsibility for managing non-audit services.



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- 8.6 Internal Audit has rights of access to all of the Council's records, information and assets that it considers necessary to fulfil its responsibilities.

## **9. WORKING WITH CUSTOMERS**

- 9.1 To provide a responsive, professional and informed audit service, which demonstrates value for money.
- 9.2 To be familiar and proactive to all service areas and to recognise their objectives, requirements and limitations.
- 9.3 Promoting **equalities, best value, fairness, openness, honesty, involvement and value added** with all of our customers and colleagues
- 9.4 Continued consultation during audits, post audit questionnaires and the annual customer survey.

## **10. STRIVING TO ACHIEVE EXCELLENCE**

- 10.1 The section will continually review its working methods and practices to ensure continuous improvement in its service delivery. This will include optimisation of available and productive time.
- 10.2 To continue to ensure that all audits undertaken review how service areas are demonstrating continuous improvement.
- 10.3 To support corporate initiatives such as transformation, workforce development, partnership working and the climate change/carbon reduction agenda.
- 10.4 To review arrangements for the performance management framework.

## **11. AUDIT OF AND USE OF TECHNOLOGY**

- 11.1 To develop the effective use of technology by Internal Audit in the delivery of the service and to meet the e-government agenda.
- 11.2 To review the provision of computer audit services to ensure that these still meet the needs of the Internal Audit Section.

## **12. DEVELOPING OUR EMPLOYEES**

- 12.1 To ensure that employee appraisals occur annually, including the development of personal action plans.
- 12.2 To encourage and support professional continuous personal development.
- 12.3 To develop mechanisms to enable the sharing of training experiences to encourage development of employees and value for money from training.

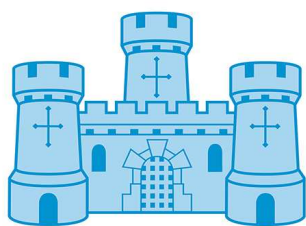
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- 12.4 To ensure effective communications within the team at all levels.
  - 12.5 To ensure a team of appropriately skilled and resourced staff, effectively managed and fully involved in the operation of the unit.

### **13. DEVELOPING THE SERVICE**

- 13.1 To continually review and assess the Audit Service against the CIPFA Code of Audit Practice.
- 13.2 To ensure the Corporate Governance arrangements of the Council (that reflects Annual Governance Statement).
- 13.3 To continue to identify relevant training for Members in relation to their role on the Audit and Risk Committee.
- 13.4 To review the role of audit to ascertain ways in which it can add further value to the organisation
- 13.5 Investigate new/ alternative ways of service delivery based on customer feedback and practices in other local authorities and service providers.
- 13.6 Review of practices, procedures and standard documentation
- 13.7 Continued development of customer feedback and consultation via feedback from individual audits and annual customer surveys.
- 13.8 Review and further develop the audit planning and control environment time recording and planning system, especially the use of management information.

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**NEWCASTLE·UNDER·LYME**  
**BOROUGH COUNCIL**

**Newcastle under Lyme Borough Council**  
**Internal Audit Service**

**Terms of Reference**

**1. INTRODUCTION**

The Internal Audit Service is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It should provide a service to the whole of the Council and at all levels of management.

The Internal Audit Service is responsible for giving assurance to the Council through the s151 Officer (Executive Director – Resources and Support Services) and the Audit and Risk Committee on all control arrangements. It also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible. It remains the duty of management, not internal audit, to operate an adequate system of internal control. It is for management to determine whether or not to accept audit recommendations and to recognise and accept the risk of not taking action.

**2. SCOPE**

All the Council's activities, funded from whatever source, fall within the remit of the Internal Audit Service. The Internal Audit Service will consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that management have taken all the necessary steps to achieve these objectives. The scope of internal audit work should cover all operational and management controls and should not be restricted to the audit of systems and controls necessary to form an opinion on the financial statements. This does not imply that all systems will be subject to review, but that all will be included in the audit needs assessment and hence considered for review following the assessment of risk.

It is not in the remit of the Internal Audit Service to question the appropriateness of policy decisions. However the Internal Audit Service is required to examine the management arrangements of the Council by which such decisions are made, monitored and reviewed.

The Internal Audit Service may also conduct any special reviews, providing independent and objective services, including consultancy and fraud related work, requested by Council, the s151 Officer, the Monitoring Officer, the Chief Executive or other Executive Directors. There will always be due consideration in planning this work to ensure that the Service maintains its objectivity and independence. The prioritisation of special work will also take account the requirements of the s151 Officer and the approved audit plan.

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### 3. RESPONSIBILITY

- 3.1 The Audit Manager is required to give an annual opinion to Council on the effectiveness of the whole of its internal control system and the extent to which the Council can rely on it. The Audit Manager should also comment on other activities for which the Council is responsible and to which the Internal Audit Service has access. The Audit Manager should give an opinion on whether control arrangements, including those for economy, efficiency and effectiveness are adequate and properly applied.
- 3.2 In order to provide the required assurance, the Internal Audit Service will undertake a programme of work over a cycle authorised by the s151 Officer on the advice of the Audit Manager to achieve the following objectives:
- (a) To appraise the soundness, adequacy and application of the whole internal control system;
  - (b) To ascertain the extent to which the systems of internal control ensure compliance with established policies and procedures;
  - (c) To ascertain the extent to which the assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses arising from fraud, irregularity or corruption;
  - (d) To ascertain that accounting and other information is reliable as a basis for the production of accounts, and financial, statistical and other returns;
  - (e) To ascertain the integrity and reliability of financial and other information provided to management, including that used in decision making;
  - (f) To ascertain that systems of control are laid down and operate to promote the economic and efficient use of resources.

The Audit Manager will agree with the External Auditor those systems and key controls which will be reviewed annually.

### 4. STATUTORY REQUIREMENT AND STANDARDS OF APPROACH

The Accounts and Audit Regulations 2006 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'.

The Internal Audit Services' work will be performed with due professional care in accordance with the Chartered Institute of Public Finance and Accountancy, C.I.P.F.A. Code of Practice for Internal Audit on Local Government in the UK, the Accounts and Audit Regulations 2006, the Auditing Practices Board's guideline 'Guidance for Internal Auditor's' and with any other statutory obligations and regulations.

The Audit Manager should implement measures to monitor the effectiveness of the services and compliance with standards. In addition, the s151 Officer should approve the performance measures used by the Internal Audit Service, and should also ask the external auditor to provide an independent assessment of internal audit's effectiveness.

In achieving its objectives, the Internal Audit Service should:

- (a) Identify all elements of control systems on which it is proposed to place reliance and establish a review cycle;
- (b) Evaluate those systems, identify inappropriate or inadequate controls and recommend improvement in procedures or practices;

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- (c) Provide advice on the management of risk, predominantly but not exclusively, on issues surrounding the design, implementation and operation of systems of internal control;
  - (d) Provide clear reports that provide management with an opinion on the soundness, adequacy and application of internal controls;
  - (e) Ascertain that those systems of control are laid down and operate to achieve the most economic, efficient and effective use of resources;
  - (f) Draw attention to any apparently uneconomical or otherwise unsatisfactory result flowing from decisions, practices or policies;
  - (g) Contribute to the general management and conduct of business through provision of expertise on appropriate working groups and participation in ad-hoc exercises, including value for money and best value studies, subject to adequate resources being available within the Audit Plan;
  - (h) Investigate and report upon all (non benefit related) frauds and irregularities in accordance with documented procedures (the Revenues Manager is responsible for investigating benefit related fraud in relation to benefit claimants); and
  - (i) Liaise with external auditors.

## 5. INDEPENDENCE

- 5.1 The Internal Audit Service has no executive role, nor does it have responsibility for the development, implementation or operation of systems. It must be asked to provide advice, however, on control and related matters arising from planned or proposed changes to, or the development of, systems or services, subject to resource constraints and the need to maintain objectivity.
- 5.2 The Audit Manager shall have right of access to the s151 Officer (Executive Director – Resources and Support Services) but has the right to report directly to the Chief Executive, Monitoring Officer, Leader of the Council or the External Auditor where necessary.
- 5.3 The Audit Manager shall be entitled to control the content of all written reports.
- 5.4 Within the Council responsibility for internal control rests fully with management who should ensure appropriate and adequate arrangements exist without reliance on the Council's Internal Audit Service. In order to preserve the objectivity and impartiality of the internal auditor's professional judgement, responsibility for implementing audit recommendations in accordance with the timetable they have agreed rests with management.

## 6. RIGHTS OF ACCESS

- 6.1 The Internal Audit Service has rights of access to all of the Council's records, information and assets that it considers necessary to fulfil its responsibilities. Rights of access to other bodies funded by the Council should be set out in conditions of funding. The Audit Manager has a right of direct access to the s151 Officer (Executive Director – Resources and Support Services), the Leader of the Council, the Monitoring Officer, the Chief Executive, the Audit and Risk Committee and the External Auditor. In turn, the Internal Audit Service will comply with any requests from the external auditors for access to any information, files or working papers obtained or prepared during the audit work that they need to discharge their responsibilities.
- 6.2 The Audit Manager shall be informed of all suspected or detected fraud, corruption or impropriety so that she can consider the adequacy of the relevant controls, and evaluates the implication of fraud and corruption for her opinion on the internal control environment.

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## 7. AUDIT MANAGEMENT

- 7.1 The Council is required to provide sufficient resources to allow an adequate and effective Internal Audit Service to be provided. The Council shall appoint an Audit Manager who will be required to determine the priorities of, deliver, and manage the Internal Audit Service for the Council. In discharging these duties the Audit Manager will:
- (a) Prepare a long-term strategy document supported by an audit needs assessment, and an annual audit plan;
  - (b) Update the plan regularly to reflect changes in Council priorities and risks;
  - (c) Translate the annual plan into operational plans for the Auditors;
  - (d) Prepare an audit brief for each audit assignment undertaken, setting out the scope and objectives of the work, timescales and reporting arrangements;
  - (e) Ensure that all audit work is completed to high standards and in accordance with appropriate professional standards;
  - (f) Undertake an annual review of the development and training needs of auditors and arrange for this to be provided;
  - (g) Establish effective relationships with managers at all levels and the external auditor; and
  - (h) Monitor the effectiveness of the service delivered and compliance with standards.

## 8. AUDIT REPORTING

- 8.1 The Audit Manager should prepare and submit an annual audit plan to Audit and Risk Committee for approval following consultation with relevant managers and the s151 Officer (Executive Director – Resources and Support Services)
- 8.2 The Audit Manager should submit an annual statement to the s151 Officer for inclusion in the statement of accounts based on the Council's financial year. This should give an opinion on the whole framework of internal control at the Council, and the arrangements for securing economy, efficiency and effectiveness.
- 8.3 The Audit Manger is accountable to the s151 Officer and the Audit and Risk Committee for the performance of the service. The performance of Internal Audit will be reported to the s151 Officer and Audit and Risk Committee on a quarterly basis.
- 8.4 The Internal Audit Service will produce draft reports, usually within a month of completion of the audit testing, giving an opinion on the area reviewed and making recommendations to improve systems where appropriate. These will be discussed with the responsible line managers who will provide responses to the report, giving management comments agreeing an action plan with timescales for implementing recommendations. A final report will then be issued to line managers, usually within a month of issuing the draft report. Where there are significant issues raised in the reports a copy may be provided to all or some of the following people, the s151 Officer (Executive Director of Resources and Support Services), Chief Executive, Monitoring Officer, External Auditor, Leader of the Council, Standards Committee or Full Council and attention drawn to such findings and recommendations.
- 8.5 The Audit Manager shall regularly review the progress made and will report progress on all fundamental and significant recommendations that have been agreed with managers. Reports on outstanding recommendations will be provided to all Executive Directors on a monthly basis, together with an Assurance Statement which is based on the number of recommendations that have been implemented and those that remain outstanding. Fundamental audit recommendations that are not implemented and whose target date has

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been changed on more than two occasions will be reported to the Audit and Risk Committee on a quarterly basis. For those fundamental recommendations that have had one target date change a report will be sent to the Chair and Vice Chair of the Audit and Risk Committee for their consideration.

- 8.6 The Audit Manager will draw the attention of the s151 Officer (Executive Director – Resources and Support Services), Executive Management Team and Audit and Risk Committee to any significant recommendations, which have not been accepted by management, and to the risks arising.
- 8.7 The Audit Manager will report to the s151 Officer any serious weaknesses, significant fraud or major accounting breakdown discovered during the normal course of audit work. The Audit Manger will then report the matter to the Chief Executive, Monitoring Officer, External Auditor, Leader of the Council, Audit and Risk Committee or Full Council as appropriate.

## **9. LIAISON**

- 9.1 The Internal Audit Service will liaise with External Auditors and other agencies as appropriate, including the Police, to enhance the level of service it provides to the Council.

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