

Public Document Pack

Date of meeting Monday, 17th February, 2014
Time 7.00 pm
Venue Training Room 1 - Civic Offices, Merrial Street,
Newcastle-under-Lyme, Staffordshire, ST5 2AG
Contact Julia Cleary

Audit and Risk Committee

AGENDA

PART 1 – OPEN AGENDA

1 DECLARATIONS OF INTEREST

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

2 Apologies

3 MINUTES OF PREVIOUS MEETINGS (Pages 1 - 4)

To consider the minutes of the previous meeting held on 18th November 2013.

4 Corporate Risk Management Report (Pages 5 - 10)

5 Collection of Council Tax (Pages 11 - 14)

6 Certification of Work Report 2012/2013 (Pages 15 - 20)

7 Internal Audit Progress Report Quarter 3 (Pages 21 - 30)

8 Adoption of Internal Audit High Risk Recommendations and Summary of Assurance (Pages 31 - 36)

9 Internal Audit Plan 2014/2015 (Pages 37 - 52)

10 Internal Audit Charter (Pages 53 - 70)

11 URGENT BUSINESS

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

Members: Councillors Waring (Chair), Loades (Vice-Chair), Mrs Peers, Mrs Cornes, Hambleton, Taylor.J and Mrs Rout

PLEASE NOTE: The Council Chamber and Committee Room 1 are fitted with a loop system. In addition, there is a volume button on the base of the microphones. A portable loop system is available for all other rooms upon request.

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

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

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

AUDIT AND RISK COMMITTEE

Monday, 18th November, 2013

Present:- Councillor Paul Waring – in the Chair

Councillors Loades, Mrs Peers, Hambleton and Rout

Phil Butters – Independent Member

John Gregory and Suzi Joberns – Grant Thornton (external auditors)

1. **APOLOGIES**

An apology for absence was received from Councillor Mrs Cornes

2. **DECLARATIONS OF INTEREST**

There were none

3. **MINUTES OF PREVIOUS MEETINGS**

Resolved:- That the minutes of the meeting of this committee held on 23rd September 2013 be approved as a correct record.

4. **HEALTH AND SAFETY APRIL 2013 TO OCT 2013**

Consideration was given to a report advising of issues and trends regarding health and safety at the Council during the period April to October 2013.

Resolved:- That the information be received.

5. **CORPORATE RISK MANAGEMENT JULY TO SEPTEMBER 2013**

The committee considered a report providing an update on progress made by the Council in enhancing and embedding risk management for the above period, including progress made in managing the identified corporate risks.

It was indicated that no issues had been raised since the committee had last met.

It was agreed that risk levels should be challenged regularly and that members would benefit from a narrative being included in future reports to explain why risk levels are what they are.

Resolved:- (a) That the committee continues to scrutinise the progress made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers where applicable.

(b) That committee notes the new risks identified between July and September 2013.

(c) That the committee, identify as appropriate, risk profiles to be scrutinised in more detail as part of its responsibility at the next meeting.

6. TREASURY MANAGEMENT HALF YEARLY REPORT 2013

The committee was asked to receive the Treasury Management Half Yearly Report for 2013/14 and to review Treasury Management activity for the same period.

The Treasury Management Half Yearly Report was circulated to all members as an appendix to the officer's report. It summarised the Council's Treasury Management Statement and provided an update on the Annual Investment Strategy, details of investments as at 30 September 2013, the Council's borrowing position and prudential indicators for 2013/14.

The Executive Director-Resources and Support Services advised the committee of action that was being taken as a result of the recent announcement that the Co-operative bank that it would be pulling out of all contracts with local authorities. The bank would honour its existing contracts up to March 2015 prior to which the Council would be commencing the tender process early in the new year leading to the appointment of new bankers in 2015. Appropriate action was also being taken by the Council to put in place contingency arrangements should the Co-operative Bank cease to exist before expiry of its contract with the Council.

Resolved:- That the Treasury Management Half Yearly Report for 2013/14 be received.

7. ANNUAL AUDIT AND INSPECTION LETTER 2012/13

Consideration was given to a report recommending that the Annual Audit Letter from Grant Thornton, the Council's external auditors, dealing with the Audit of Accounts for 2012/13, as set out in the appendix to the officer's report, be received.

The contents of the Audit Letter were summarised by John Gregory explaining that the key areas for the Council's attention were outlined in the appendix.

He indicated his intention to issue an unqualified opinion on the Authority's 2013/13 financial statements concluding that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and providing value for money.

Resolved:- That the Annual Audit Letter issued by Grant Thornton be received and a copy be sent to all members of the Council.

8. REVIEW OF THE COUNCIL'S ARRANGEMENTS FOR SECURING FINANCIAL RESILIENCE

Consideration was given to a report from Grant Thornton, the Council's external auditors, reviewing the Council's arrangements for securing financial resilience.

The report concluded that the Council had robust financial systems and processes in place to manage its financial risks and opportunities and to secure a stable financial

position that enabled it to continue to operate for the foreseeable future (ie. for the 12 month period from the date of the report).

However, although the overall picture was a positive one it was indicated that the Council's performance in the collection of Council Tax was below average and should be improved.

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

(b) That a report about the collection of Council Tax in the Borough be submitted to the next meeting of this committee for consideration.

9. INTERNAL AUDIT PROGRESS REPORT QUARTER 2

Consideration was given to a report setting out details of the work undertaken by the Internal Audit Section during the period 1 July to 30 September 2013. The report identified the key issues raised.

It was indicated that up to the end of September 2013 273 recommendations had been made of which 248(91%) had been implemented, the target being 96% by the end of the current financial year. With 91% of all recommendations implemented to date it was stated that this provided a good indication that managers were responding positively to implement the recommendations made.

It was reported that 33% of the audit plan had been completed against a target of 25% indicating that the audit plan was on track for completion by the end of the financial year.

The officers report contained information about the percentage of clients who had expressed that they were either satisfied or very satisfied with the service provided by the audit section. However, disappointment was expressed that very few satisfaction surveys were returned during quarter 2 and that thought was being given to how clients could be encouraged to return them.

Resolved:- That the report be noted.

10. ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 01 JULY TO 30 SEPTEMBER 2013

Consideration was given to a report setting out outstanding high risk recommendations and seeking the committee's approval of actions taken by Executive Directors in respect of the recommendations and proposed target dates.

High risk recommendations were those where action was considered imperative to ensure that the authority was not exposed to high risks and needed to be implemented within one month of the recommendation being agreed with managers.

It was indicated that there were no outstanding high risk recommendations at the end of Quarter 2 and the committee was provided with a summary of assurance levels for each of the directorates for the same quarter.

Resolved:- That the officer's actions and levels of assurance be noted.

11. URGENT BUSINESS

Audit and Risk Committee - 18/11/13

There was no urgent business.

COUNCILLOR PAUL WARING
Chair

Agenda Item 4

CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD October to December 2013

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 2013, 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 2013.**
- (c) **Identify, as appropriate, risk profiles to be scrutinised in more detail as part of your responsibility at the next meeting.**

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 Risk Management 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 ambitions 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 within 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 the Council's Audit & Risk Committee in November 2013.

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.

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

During this quarter there have been no additional risks added of a final rating of Medium 7, 8 or High 9.

Officers have mitigated certain strategic risks in their profiles for this quarter, and have closed a risk. Details of this and the reason why can be seen below.

High red risk regarding reputation damage has been closed by the Chief Executive, with the following explanation –

- The risk has been reviewed and in light of the control measures which have been introduced, and which now form part of organisational operational practice, it is considered that this risk can now be closed. This matter is a risk to the council, but remains part of routine operation which is constantly reviewed. All formal reports of the council, including all key decisions are also subject to a risk assessment.

High red risk regarding the failure of the overall budget realisation failing has been reduced to a medium amber 6 by the Executive Director – Resource and Support Services, with the following explanation –

- due to further review of the combination of various risks and the control measures in place, the council is in a position to monitor, combined with the Medium Term Financial Strategy, the budget on a regular basis.

Another high red risk that has been reduced is the breach of Data Protection, down to a medium amber 6.

- The risk rating has reduced due to the likelihood being controlled through measures and constant monitoring and refresher training. Staff are aware of procedures to follow and the notification of fines that other larger authorities have received for breaches.

The Appendix now highlights the risks that fall into the top line of the ratings being reported.

2.2 **Issues from last meeting**

None were raised.

2.3 **Horizon Scanning**

Members will recall that a list of legislative developments was provided at past meetings of the Committee.

At the request of the Chair, a selected list of legislation either currently going through Parliament that could have an impact on the Council or Acts which are important in local government terms. The list is not exhaustive.

Members are asked to study the list and to request further information if required.

A number of major pieces of legislation have been passed during the current Parliament (May 2010-May 2015). These include: -

- Health and Social Care Act 2011
- Localism Act 2011
- Police Reform and Social Responsibility Act 2011

A current selection of local government-related Bills and Acts include the following: -

- Anti Social Behaviour, Crime and Police Bill 2013
- Electoral Register Bill 2014
- Local Audit and Accountability Act 2014

3. **Outcomes Linked to Corporate and Sustainable Community 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 (England) Regulations 2011, state that:

*“The relevant body **is** responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control, which facilitates the effective exercise of that body’s functions and which includes arrangements 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 Report

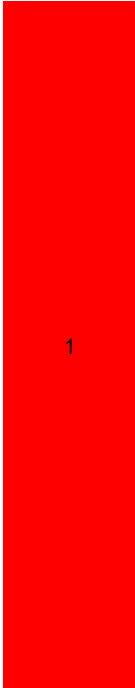
8. **Background Papers**

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

Appendix Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 29/01/2014	as at June 13	as at Sept 13	as at Dec 13
1 Potential Claims growth	Chief Executive	The Council has robust systems in place both to deal with claims when they happen and also to prevent, where possible, the circumstances where claims could arise. In doing so, the Council has in place policies and procedures designed to enhance safety at work and also to advise staff and others when driving or operating machinery. The Council checks, on a regular basis, that it is up to date on best practice in this area and that systems reflect changes in the local, national or international environments		Strategic	Risks reviewed and noted that this area is of growing significance with the number and value of claims increasing. Further actions reviewed. Consideration was given to potential control measures, but these are addressed by the existing further actions.	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9



Appendix X									
Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating	
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 29/01/2014	as at June 13	as at Sept 13	as at Dec 13	
2	Inability to implement outcomes from the Stock Condition Survey due to lack of finance (Asset Management Strategy)	Regeneration & Development	Annual review of the Asset Management Strategy to take place, however the Facilities Manager reviews the Capital Works Programme on an ongoing basis	Jan-15	Operational	The outcome report has been received by the Capital Programme Review Group. The urgent items are covered by the 3 year Capital Works Programme and this should allow for the repairs to be undertaken. There is however an annual review of the Works Programme to assess if there is a need to change priorities.	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8
3	Increase in Fees and Charges does not result in higher income levels (Balances/Contingency Reserve)	Resources & Support Services	An in-depth review of levels of fees and charges has been carried out, using data from local authorities across the country and this has been tested against local knowledge of usage and demand to produce as realistic a set of fees and charges as possible. In addition, care has been taken to set realistic targets for income as part of the overall annual budget setting exercise.		Project	Updated control in place to reflect £500k set aside to cover potential affects on income of the current economic climate.	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8

Audit and Risk Committee 17 February 2014

Collection of Council Tax

At your last meeting, you considered a report compiled by the Council's auditors, Grant Thornton, entitled 'Review of the Council's Arrangements for Securing Financial Resilience'. One element of this report highlighted that Newcastle's collection rates for Council Tax were the lowest of all the shire districts in Staffordshire and in the bottom 25% for shire districts in England.

The conclusions in the report are based on collection statistics which are produced nationally from returns submitted by all types of billing authorities to the Department of Communities and Local Government. Other statistical information is gathered by the Chartered Institute of Public Finance and Accountancy and provides management information which is used to assess and analysis collection performance as part of the normal administrative processes of the Revenues and Benefits Section.

The headline collection statistic used in the report is the 'in year' collection percentage. That is the amount of Council Tax for a particular financial year collected by the end of that financial year. Whilst obviously an important yardstick to indicate collection performance, it only goes part of the way to reflect the overall collection situation.

In respect of each of the previous five financial years the table below shows the respective 'in year' collection percentage rates for each district in Staffordshire, Stoke-on-Trent City Council, All England Shire Districts average and All England average.

Local Authority	2008-09	2009-10	2010-11	2011-12	2012-13
Cannock	98.5	98.7	98.1	98.0	97.8
East Staffs	98.6	98.6	98.5	98.5	98.5
Lichfield	98.6	98.8	98.7	99.1	99.3
Newcastle	97.2	97.7	97.3	97.0	97.3
South Staffs	98.2	98.5	97.9	97.7	98.0
Stafford	97.4	98.0	98.1	98.4	98.2
Staffs Moorlands	99.1	99.2	98.8	98.9	98.8
Tamworth	97.6	98.3	98.0	98.1	98.0
Stoke-on-Trent	96.3	92.9	93.1	95.6	96.5
Shire Districts	98.0	98.1	98.2	98.2	98.1
All England	97.0	97.1	97.3	97.3	97.4

From a Council Tax position, Newcastle is not typical of many shire districts, either in England as a whole or Staffordshire in particular. Typically, shire districts tend to be concentrated on a main town with a large rural surrounding area. A high proportion of Newcastle's properties form part of the wider North Staffordshire conurbation, which brings with it many of the economic difficulties normally associated with metropolitan or unitary authority areas. These obviously impact on collection performance for Newcastle.

The inclusion of the Stoke-on-Trent collection figures in the table above is to highlight the position for our nearest neighbours who are also in the general North Staffordshire

conurbation but are not reflected in the Grant Thornton report and to place some additional context on Newcastle's collection position.

2010-11 collection figures reflect the general economic difficulties across the whole Staffordshire area at the time, with only Stafford marginally improving their collection performance and both Newcastle and South Staffs were impacted in 2011-12 by the consequences of changing their computer software systems used for the administration and collection of Council Tax (Stafford and Staffs Moorlands also changed software suppliers at this time but moved to existing systems used by partner authorities – Cannock and High Peak respectively – which had less effect on their overall performance).

Prior to the two years 2010-11 and 2011-12, Newcastle's collection figures had demonstrated a number of years sustained increase in performance and 2012-13 saw Newcastle to be one of only three of the Staffordshire districts to improve over the previous year. Across all the Staffordshire districts in the five years 2008-09 to 2012-13 the average difference between the highest and lowest collection rates is 1.8%, so the margins within which the measurements are being analysed is small and does not reflect in any way the differing economic prosperity of the respective districts. Judgment would more correctly be made by reflecting on a whole range of economic data sets rather than this single indicator.

North Staffordshire is generally regarded as a low pay area, so it is understandable that some of its citizens will find difficulties in meeting their Council Tax liabilities in comparison to citizens in other better paid areas.

Obviously, once the end of the financial year is reached and the above statistics compiled, collection of any outstanding debt does not stop. However, it becomes much more difficult to analysis comparative performance across authorities because the overall arrears spreads over several years and different methodologies are used to deal with it, not easily reflected statistically.

Legislation directs the way Council Tax accounts are administered and the recovery actions that are needed when payment is in default. Newcastle adheres to the regulations laid down and actively pursues all outstanding debt. It also uses outside agencies for bailiff services and bankruptcy proceedings as necessary to assist with this.

Pursuit of old debt is resource intensive and historically Newcastle have always taken the view that all possible endeavours will be made to collect it. The belief is strongly held that such action is necessary to safeguard the payment confidence of the majority of Council Tax payers who pay without any recourse to recovery action.

The amount of debt considered irrecoverable and therefore written off is proportionately small. As part of the normal write-off procedures carried out each year, an annexe to the main report to members details our collection and recovery procedures, which are considered robust for both 'in year' and arrears debt.

Some authorities are known to have different approaches to old years' debt, preferring to concentrate on the headline 'in year' collection figures instead. In reality, a balance needs to be struck which an individual authority is comfortable with, within the resources that are available to it. Less emphasis on old years' debt will inevitably lead to higher levels of write-offs. The table below illustrates the average amounts of Council Tax written off in the four

financial years 2008-09 to 2011-12 (latest figures currently available) by Staffordshire district councils and Stoke-on-Trent City Council expressed as a percentage of the net collectable debt for 2011-12.

Local Authority	2011-12 Net Collectable Debt (£000's)	Average w/offs 2008-09 to 2011-12 (£000's)	%age w/offs
Cannock	37,609	35	0.09
East Staffs	48,945	166	0.34
Lichfield	49,849	50	0.10
Newcastle	48,900	61	0.12
South Staffs	50,356	121	0.24
Stafford	59,842	215	0.36
Staffs Moorlands	45,159	150	0.33
Tamworth	28,107	54	0.19
Stoke-on-Trent	76,971	1,358	1.76

An obvious conclusion from the two tables above is that Lichfield has high collection rates and low levels of write-offs. This is an indication of the relative prosperity of that district area. Equally, Stoke-on Trent's lower collection rates and higher write-offs points towards an area of greater deprivation.

In 2007 an independent review of resources available in Revenues and Benefits was carried out that identified the section was understaffed. Since that time, the number of properties administered has risen by 3%.

Although the staffing levels were initially addressed, the situation has steadily eroded in more recent times and is now at a level below when the review was first carried out.

Council Tax collection is obviously a volume, process driven operation. The vast majority of payers clear their accounts with little or no additional prompting than sending an initial bill. It is easy to forget this. However, for those that do not, taking further action to enforce payment becomes very resource hungry.

There is in place a schedule for regular monthly recovery action based around the normal instalment dates for accounts. The legislation leaves little scope for the inclusion of additional processes. The only real potential for change in this area is reducing the number of days before issuing reminder notices.

Legislation would allow notices to be issued the day after the instalment date is past. However, practically to do so would generate an enormous volume of additional work. There is a general expectation that a few days latitude is allowed to strike an appropriate balance to the citizen that is not an overly officious stance but gives a genuine timely reminder for those who may have delayed payment for whatever reason.

If action after reminder notice is required, it is necessary to pursue this initially through the magistrates court system. Each additional stage of recovery thereafter is considered on an incremental basis and these processes work on a weekly cycle.

A further key consideration for recovery of Council Tax debt is that the charge is due to be paid and cannot be off-set by exemption, discount or Council Tax Reduction. Particularly in respect of Council Tax Reduction, someone eligible for this relief would obviously struggle with payments if the relief were not granted.

In summary, collection performance is a complex issue, heavily directed by regulatory requirements but one that is kept under constant review. It would be surprising and probably unrealistic, based on the general economic background of the area, to find our 'in year' collections amongst the best performers, although officers constantly strive to improve the position and progress is once again being made in this area. Our strength lies in the continuation of pursuit of the debt beyond each 31 March statistical timeline.

David M Baker

Head of Revenues & Benefits

CERTIFICATION WORK REPORT 2012/13

Submitted by: Executive Director – Resources and Support Services

Portfolio: Finance and Resources

Ward(s) affected: Non Specific

Purpose of the Report

To receive Grant Thornton's Annual Report in respect of the Certification of Claims for the Borough Council for 2012/13.

Recommendation

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

Reasons

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

1. **Background**

- 1.1 Grant Thornton's report (attached as an Appendix) summarises the findings from the certification of 2012/13 claims.
- 1.2 External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources.

2. **Issues**

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

3. **Options Considered**

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

4. **Proposal**

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

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

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

6. **Legal and Statutory Implications**

This report raises no new statutory or legal implications.

7. **Equality Impact Assessment**

There are no differential equality impact issues identified.

8. **Financial and Resource Implications**

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

9. **Major Risks**

There are no additional risks identified by the report.

10. **List of Appendices**

Appendix – Certification Work Report 2012/13 – January 2014.

Kelvin Turner
Executive Director (Resources and Support Services)
Newcastle Borough Council
Civic Offices,
Merrial St,
Newcastle-under-Lyme,
Staffordshire
ST5 2AG

13 January 2014

Dear Kelvin

Certification work for Newcastle Borough Council for year ended 31 March 2013

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

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

We have certified two claims and returns for the financial year 2012/13 relating to expenditure of £71 million. Further details of the claims certified are set out in Appendix A.

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

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 was £13,500. Due to the reduced error rate in the Housing and Council Tax benefit grant claim we are proposing to reduce this indicative fee to £11,357. However this fee should not be considered final until confirmed by the Audit Commission. This is set out in more detail in Appendix B.

Yours sincerely

John Gregory
For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2012/13

Claim or return	Value (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	40,339,519	No	N/A	Yes	Initial testing identified a small number of under & overpayments of benefits. Subsequent testing found these errors had not been repeated. Work completed was reported by 30 November 2013 as required by the certification instruction.
National non-domestic rates return	30,749,111	No	N/A	No	

Appendix B: Fees for 2012/13 certification work

Claim or return	2011/12 fee (£) *	2012/13 indicative fee (£)	2012/13 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim	12,160	11,550	9,407	2,143	Decrease in fee due to the reduced work required because of the improved error rate associated with the claim.
National non-domestic rates return	1,784	1,950	1,950	0	
Total	13,944	13,500	11,357		

* 2011/12 fee less 40% fee reduction applicable for 2012/13 onwards. This is shown in this way to make it comparable to the 2012/13 fee.

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Classification: NULBC UNCLASSIFIED

HEADING **INTERNAL AUDIT PROGRESS REPORT – Quarter 3 2013/14**

Submitted by: Audit Manager

Portfolio Finance and Resources

Ward(s) affected All

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1 October to 31 December 2013. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

Recommendations

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

Reasons

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

1.0 Background

1.1 The Internal Audit Plan for 2013/14 allows for 530 days of audit work.

1.2 This is the third progress report of the current financial year presented to the Committee and the areas that it will cover are as follows;

- Actual against planned performance for the third quarter, demonstrating progress against the plan
- Details of audit reviews completed and final reports issued
- Consultancy and non audit work, including corporate work

1.3 The delivery of an audit plan does not normally show 25% of the audits are completed in each quarter. Past experience has shown this is more likely to be around 40% by the end of the third quarter. Achievement of this 40% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 75% of the plan is not normally achieved due to slippage of the previous quarter, and other factors such as special investigations/projects. 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.

Classification: NULBC UNCLASSIFIED

2 Issues

2.1 Performance Indicators

The indicators reported below relate to the end of the third quarter (December 2013).

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 2013, 318 recommendations had been made of which 277 have been implemented, 87%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 87% of all recommendations implemented to date this provides a good indication that managers are responding to and implementing the recommendations made. We would not anticipate this to be any higher at this stage in the year due to varying factors one being the fact some of the recommendations will not yet have reached their implementation date.

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

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2013/14 is 85%.

Out of 6 surveys issued during quarter three, 4 satisfaction surveys were returned; the average for this was 90%. There has been a slight improvement in the return of satisfaction surveys since the last quarter and following the recommendation from this committee the following wording is now included in the email when the surveys are sent out;

'Please find attached a copy of our Satisfaction Survey which I would be grateful if you could complete and return to me within 10 working days. Your views are important to us and we use these surveys to review Internal Audit and ensure that we continue to provide an efficient and effective service. They also help us to make any improvements where necessary. The Audit & Risk Committee have recently expressed concerns over the lack of surveys that are completed and returned to us therefore I would appreciate if you could spare just 5 minutes to complete and return this too us.'

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 78%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 48% 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%. 55 % 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 2013

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

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

2.5 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since the 1 October 2013. Appendix A provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Resources and Support Services		
Creditors Key Controls	Well Controlled	A
Bank Account Reconciliation	Well Controlled	B
Medium Term Financial Strategy	Well Controlled	B
Operational Services		
Fleet Management	Less than Adequately Controlled	B
Depot Health & Safety	Adequately controlled	B
Regeneration & Development		
Building Control	Adequately Controlled	B
Housing Grants	Well Controlled	B
Corporate Reviews		
Gifts & Hospitality & Register of Outside Interests	Well Controlled	A
Partnerships	Poorly 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 Manager and members of the audit team have spent 37 days undertaking reviews and special projects at the request of other Directorates.

3 Options Considered

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

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

4 Proposal

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

5 Reasons for Preferred Solution

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

6 Outcomes Linked to Corporate Priorities

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

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

7 Legal and Statutory Implications

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

8 Equality Impact Assessment

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

9 Financial and Resource Implications

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

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

10 Major Risks

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

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

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

11 Key Decision Information

11.1 Not applicable

12 Earlier Cabinet/Committee Resolutions

12.1 Agreement of the Internal Audit Plan for 2013/14 (Audit and Risk Committee 18 February 2013).

13 Recommendations

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

14 List of Appendices

14.1 Internal Audit Plan 2013/14: Progress to the end of Quarter 3 – 2013/14.

15 Background Papers

15.1 Internal Audit Plan & PI's Folder

15.2 APACE files 2013/14

Internal Audit Plan 2013/14**Progress to the end of Quarter 3 – 2013/14****Resources and Support Services Directorate****Areas completed in Quarter 3 of the 2013/14 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	
Creditors Key Controls	A	Well Controlled	0	0	0	0
Bank Account Reconciliation	B	Well Controlled	0	0	0	0
Medium Term Financial Strategy	B	Well Controlled	0	0	0	0

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

- Creditors – Key Controls**, the main objectives for this review are to ensure that;
- 16 all orders for goods and services are in accordance with Standing Orders and Financial Regulations;
 - 17 the receipt of goods and services is in accordance with Standing Orders and Financial Regulations;
 - 18 all payments for goods and services are in accordance with Standing Orders and Financial Regulations;
 - 19 there is documentation to support all payments made via the Creditors system.

Overall for the sample selected no problems were identified and all controls were found to be in operation and therefore no recommendations were made.

- Bank Account Reconciliation**, the main objectives for this review are to ensure that;
- controls in respect of the bank account reconciliation were in place and operating correctly

This review looked at the bank reconciliation process in terms of Agresso before the transfer over to the new Civica system the review examined three month's reconciliations and no issues were identified. A further review will be completed before the end of the financial year to examine the reconciliation processes within Civica.

- Medium Term Financial Strategy**, the main objectives for this review are to ensure that;
- the Council has an up-to-date Medium Term Financial Strategy
 - budgets are set and managed in accordance with the Medium Term Financial Strategy
 - there are regular reporting lines to members concerning the Council's current financial position.
 - there all relevant staff & members receive the appropriate financial training.

Overall this area was found to be functioning well and no issues were identified.

Operational Services

Areas completed in Quarter 3 of the 2013/14 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	Less than Adequately controlled	1	9	3	13
Depot Health & Safety	B	Adequately Controlled	1	2	0	3

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

Fleet Management- the main objectives for both these reviews were to ensure that;

- To ensure that a Vehicle Management Policy is in place and that procedures are clearly defined with regard to management processes.
- To verify that the authority is receiving the quantities of fuel charged for and that the rates imposed correspond to the agreement at the date of delivery.
- To check that fuel issued to outside bodies and internal Services is recharged in full. That fuel reports are adequately monitored and acted upon where discrepancies are evident.
- To ensure that controls are in force to safeguard the Authority's assets.
- To ensure that vehicles are maintained in accordance with safety and service requirements.
- To ensure that vehicles are maintained in line with their individual warranty or lease conditions.
- To ensure that defect sheets are completed for all vehicles on a daily basis and relevant action taken where applicable. That vehicles are checked for road worthiness before being returned to operations.
- To ensure that a job ticket is completed by the mechanic completing the repair. To ensure that all job tickets are checked and approved by a relevant Officer.
- To ensure that accidents and damage are reported and claimed via insurers where necessary.
- To review the risk register relevant to the service area and ensure that all significant risks have been identified and documented and are subject to regular review.

As a result of the review a number of recommendations were made which included;

- A review of the vehicle management policy,
- Updating procedure notes to reflect key processes,
- Reviewing the fleet database to ensure that it is up to date,
- Looking at ways in which fuel usage can be monitored more effectively,
- Ensuring that vehicle defects are reported promptly and recorded correctly,
- Review the training requirements for all staff driving council vehicles,
- Ensure risk assessments are updated and that all,
- Accidents are logged and recorded on Target 100, the Councils Health & Safety system.

Depot Health & Safety - the main objectives for this review are to ensure that;

- roles and responsibilities with regards to the security/management of the Depot have been clearly defined;
- appropriate agreements are in place with tenants/outside bodies using the Depot;
- adequate security measures are in place at the Depot;
- health and safety/maintenance issues are reviewed on a regular basis and any issues identified are acted upon;
- all necessary issues have been communicated to the relevant personnel.

Following this review a number of recommendations were made which included;

- An agreement should be put in place with Security Services Ltd. in respect of services provided at the Depot. This was recommended during the last audit and is still outstanding,
- All outstanding risk reviews with regards to the Depot should take place as soon as possible, and
- All overdue risk assessments should be completed and reviewed on an annual basis.

Regeneration & Development Services

Areas completed in Quarter 3 of the 2013/14 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	
Building Control	B	Adequately controlled	0	1	2	3
Housing Grants	B	Well Controlled	0	0	2	2

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

Building Control- the main objectives for this review was to ensure that;

- To ensure that a formal partnership agreement is in place clearly detailing roles and responsibilities, objectives and quality standards, and is regularly updated.
- To ensure that formal monitoring arrangements are in place for the partnership.
- To ensure that risks associated with the partnership have been identified and are managed accordingly.
- To ensure that the service is adequately promoted and meets the needs of stakeholders

As a result of this review the following recommendations were made;

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- A new partnership agreement should be entered into in accordance with the scheduled timetable for completion by June 2014,
- The Business plan for the partnership should be reviewed annually as per the partnership agreement and
- The Building Control Partnership operational risk profile in GRACE should be reviewed as per the scheduled review dates.

Housing Grants- the main objectives for this review was to ensure that;

- The organisation has clearly defined policies available to all applicants, agents and contractors, as appropriate ;
- All grant claims are supported by a signed claim form and appropriate documentation;
- All approved grant claims are certified by an authorised Manager;
- The extent of works required is clearly documented and subject to inspection throughout;
- Adequate records in respect of grant allocations should be maintained.

From the audit review the following recommendations were made;

- The Emergency Repair Grant application form should be updated to include a clause in the declaration warning of penalties or prosecution in the event of an applicant knowingly supplying false information, and
- The HIA should be asked to stamp all supporting documentation, certifying that they have seen the original documentation.

Corporate Reviews

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

Areas completed in Quarter 3 of the 2013/14 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	
Gifts & Hospitality & Register of Outside Interests	A	Well Controlled	0	0	0	0
Partnerships	A	Poorly Controlled	1	4	0	5

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

Gifts & Hospitality and Register of Outside Interests - This review is completed annually and looks to ensure that staff are reminded of their obligations in respect of the receipt of

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gifts and hospitality and registering of any outside interests as set out in the Employee Code of Conduct. No issues or concerns were identified with this review.

Partnerships - the main objectives of this review was to ensure that;

- there is a clearly defined corporate framework for partnership working;
- a register of all partnerships entered into has been maintained in accordance with Financial Regulations;
- risk assessments and pre-partnership questionnaires have been completed to enable all controls to be evaluated;
- each partnership has a nominated officer in accordance with the Scheme of Delegation;
- a legal agreement has been entered into for each partnership and has been evaluated by the Head of Legal Services;
- all partnership agreements and arrangements do not impact adversely upon the services provided for by the Council;

As a result of the audit a number of recommendations were made which included;

- All staff should be reminded of the need, as per Financial Regulations, that all partnerships should be recorded in the Council's Partnerships Register,
- The Partnerships Register should be held and monitored centrally by the Business Improvement and Partnerships team,
- The Partnership Code of Practice should be replaced by a concise document detailing the key requirements of a partnership.

Note on recommendations

Recommendations fall into one of three categories;

- High (H):** *action that is considered imperative to ensure that the authority is not exposed to high risks;*
- Medium (M):** *action that is considered necessary to avoid exposure to significant risks;*
- Low (L):** *action that is considered desirable and which should result in enhanced control or better value for money.*

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HEADING

QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 OCTOBER TO 31 DECEMBER 2013

Submitted by: Audit Manager

Portfolio Finance and Resources

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.

Recommendations

A 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 also provided to each Executive Director on a monthly basis, based on the number of recommendations that have been implemented, and where the target date has been changed more than twice on either medium or high risk recommendations.

2. **Issues**

2.1 At the end of quarter three there were no outstanding high risk recommendations.

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

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

3. **Reasons for Preferred Solution**

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

4. **Outcomes Linked to Corporate Priorities**

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

5. **Legal and Statutory Implications**

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

6. **Equality Impact Assessment**

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

7. **Financial and Resource Implications**

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

8. **Major Risks**

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

9. **Key Decision Information**

9.1 Not applicable

10. **Earlier Cabinet/Committee Resolutions**

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

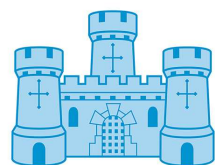
11. **List of Appendices**

Audit Recommendations Summary of Assurance for Quarter 3 2013/14

12. **Background Papers**

Internal Audit PI and Assurances file

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Summary of Outstanding Audit Recommendations and Levels of Assurance – Quarter 3 2013-14

	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov	Dec
Total number of Recommendations	22	22	22	125	122	116	21	21	21	72	92	92
Number of Recommendations Outstanding	1	1	3	16	17	14	1	0	2	16	8	26
% Implemented as at the month end	94	94	82	82	82	84	90	100	83	48	74	50
% Overdue for implementation as at the month end	6	6	18	18	18	16	10	0	17	52	26	50
No of recommendations with target date changed > 2	0	0	0	0	0	0	1	0	0	0	0	0
High Risk recommendations with target date changed > 2	0	0	0	0	0	0	1	0	0	0	0	0
Medium Risk recommendations with target date changed > 2	0	0	0	0	0	0	0	0	0	0	1	0

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	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
Low Risk recommendations with target date changed > 2	0	0	0	0	0	0	0	0	0	0	0	0
	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov	Dec
Overall Assurance Level	Full	Full	Sub	Sub	Sub	Sub	Ltd	Full	Sub	Little	Sub	Ltd
Annual Audit Days for Directorate*	50			189			80			112		
Total number of audit reviews for the Directorate*	5			22			11			9		

* In addition to the audit days per directorate there are 99 days identified for Corporate Reviews – these being reviews that span across all services. There are 13 reviews that are undertaken corporately.

Opinions are classified as;

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

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

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

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

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

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<u>HEADING</u>	Internal Audit Plan 2014/15
<u>Submitted by:</u>	Audit Manager
<u>Portfolio:</u>	Finance and Resources
<u>Ward(s) affected:</u>	All

Purpose of the Report

To inform Members of the proposed Internal Audit Plan for 2014/15 and to seek their approval as to its contents.

To agree with members the reporting arrangements for performance against the 2014/15 proposed plan.

Recommendations

A That the Internal Audit Plan for 2014/15 is approved

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

Reasons

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

1. Background

- 1.1 The Local Government Accounts and Audit Regulations 2011 require every Local Authority to maintain an adequate and effective system of internal audit of accounting records and control systems. Internal Audit is an independent appraisal function within the Borough Council under the control of the Executive Director Resources and Support Services and Section 151 Officer. The Section also provides a service to management by giving assurance that there are adequate internal controls in operation, ensuring the proper, economic, efficient and effective use of resources, to include the security of assets and data and to assist management in preventing and detecting fraud. This is covered by routine system and regularity audits and under a wider remit by value for money and special audits.
- 1.2 A sufficiently resourced and effective Internal Audit Section is key to providing assurance on the Councils systems of internal control and the prevention and detection of fraud and corruption. In addition External Audit require assurance that 'the Council has arrangements in place to maintain a sound system of internal control' with evidence to support that:
 - The Council reviews and reports on its systems of internal control
 - The Council has an audit committee or equivalent and an internal audit function and that the internal audit function operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.

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

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

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

2. **Issues**

Internal Audit Plan for 2014/15

- 2.1 The Internal Audit Plan is calculated in terms of audit days, 520 for 2014/15, 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 PSIAS the plan is fixed for no longer than one year and outlines the areas to be covered together with the estimated resource, in terms of audit days required to complete the 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 2014/15 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 980 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 2014/15 have been calculated at 520. 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 229 days and 291 days for 'B' risk areas.

- 2.4 Given the resources available for 2014/14 a total of 460 days were required to be adjusted out of the plan, these were identified as follows;
- a review of the planning model where a total of 145 days were identified for areas that were no longer relevant and included reviews such as Tourism, Pericles Replacement, Aggresso System, Objective 2 funding, NMP Exit Strategy, Renew, Slum Clearance, Use of Resources and Consultants.
 - since 2011/12 key financial systems are reviewed on a rotational basis whereby half the systems are done in full and the other half are just reviewed in terms of key controls, this has allowed for a further 50 days to be adjusted from the plan for 2014/15,
 - the remaining 255 days were identified by reviewing days already allocated to audit reviews in the plan and some audit areas that had been completed in 2013/14 and as a result did not warrant a further review in 2014/15.
- 2.5 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.
- 2.6 During the course of 2014/15 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

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

3.0 Options Considered

- 3.1 In considering the resourcing of the Internal Audit Section consideration is given to the skills required and those that are available internally, or are best provided by external companies. The provision of Computer Audit skills is a specialist area and one that is constantly changing. Whilst internal auditors can provide a level of computer auditing looking at environmental controls and some of the basics in relation to systems and project management, the more technical expertise will be bought in. The provision of Computer Audit work for 2014/15 is currently being reviewed and quotations are in the process of being obtained. The Committee will be advised of the results of this process through reports to future meetings.

4. Proposal

- 4.1 In agreeing the proposed Audit Plan for 2014/15 members are agreeing to a review of all audit areas listed, following a risk assessment based on the information available for review during 2014/15 and within the resources available to the Section as identified at the beginning of the year.

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

5. **Reasons for Preferred Solution**

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

6. **Outcomes Linked to Corporate Priorities**

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

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

7. **Legal and Statutory Implications**

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

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

Resourcing of the Internal Audit Section

9.1 The present Internal Audit Section has 3.5 posts, which include the Audit Manager and 2.5 operational staff providing, a combined total of 490 days in addition 30 days are brought in from specialist external computer auditors,

9.2 The provision of computer audit for 2014/15 will be delivered by an external computer audit specialist. Quotations are currently being sought for this work and as mentioned earlier in this report the results of this market testing will be brought to a later meeting of this committee.

9.3 The Audit Plan for 2014/15 can be provided within current revenue budgets provided that the staffing resources remain unchanged from estimates used in support of the proposed plan.

10. **Major Risks**

10.1 Any issue that increases the demand on Internal Audit Section which in turn diverts the attention from the completion of the Audit Plan is a risk to the organisation. Non completion of the Audit Plan will increase the risk to the Council of poor financial and managerial

controls due to assurance not being given for these. This in turn could result in District Audit Management Letters, poor value for money and increase the risk of fraud or corruption.

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

11. **Key Decision Information**

11.1 Not applicable.

12. **Earlier Cabinet/Committee Resolutions**

12.1 Not applicable.

13. **List of Appendices**

Appendix A Proposed Internal Audit Plan 2014/15

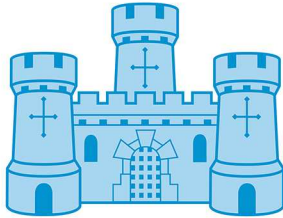
Appendix B A risk assessment conducted against each audit area

Appendix C Risk Assessment in respect of the Audit Service

14. **Background Papers**

14.1 Internal Audit Plan 2014-15-(Electronic file)

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Internal Audit Plan 2014/15

Audit Areas	Risk	Days
Chief Executives		
Risk Management	B	20
Freedom of Information (FOI)	B	4
Elections	B	8
Land Charges	B	10
Member Services	B	10
Regulation of Investigative Powers (RIPA)	B	3
Website Content*	B	7
Chief Executive Total Days		62
Resources & Support Services		
Payroll	A	20
Data Protection	B	5
Council Tax	A	25
Creditors	A	25
Asset Management Capital	A	5
Civica Financials	A	15
Treasury Management	A	10
VAT	B	5
Electronic Payments	B	5
Housing Benefits	A	10
National Non domestic Rates (NNDR)	A	20
Sundry Debtors	A	20
National Fraud Initiative (NFI)	B	10
ICT Strategy*	B	7
Cash Receipting System	B	5
Civica Application Review*	A	7
Income Collection	A	5
ICT Applications - User Access*	B	7
Resources and Support Services Total Days		206
Operational Services		
Operational Services Administration	B	10
Current & Final Accounts	A	10

Garage Workshops		
Bereavement Services	B	10
Jubilee 2	B	15
Application Review - Gladstone (follow up)	B	20
Community Centres	B	5
Park Attendants	B	10
Refuse Collection	A	2
	B	20
Operational Services Total Days		102
Regeneration & Development Services		
Public Buildings Maintenance	B	10
Health and Safety	B	10
Property Management - Asset Disposal	B	10
Pest Control	B	5
Current and Final Accounts	A	10
Regeneration and Development Administration	B	10
Housing Strategy	B	5
Ryecroft Development	B	5
Regeneration and Development Services Total Days		65
Corporate Functions		
Third Sector Commissioning	B	7
Gifts Hospitality & Outside Works	A	5
Performance Management	A	5
Corporate Governance	A	10
Partnerships (follow up review)	A	5
Email and Internet Usage	B	6
Contract Compliance	B	10
Information Asset Registers	B	5
ICT Audit Needs Assessment*	B	2
Information Governance Toolkit	B	10
Procurement	A	20
Corporate Functions Total Days		85
Total Days for 2014/15		520

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

UPDATE FORM FOR NEEDS ASSESSMENT

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

AUDIT AREA	
FILE REFERENCE	
AUDITOR	

	RISK ELEMENT	SCALE OF QUALIFICATION	
1	INTERNAL CONTROL QUALITY (25%)		
1	Segregation of duties		
	Total control over staff activities (e.g. in house development in a sizeable, 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	Documentation		
	Fully documented and up to date	1	
	Partial documentation but not necessarily up to date	2	
	Poor/ absent documentation	3	
3	Quality / reliability		
	Controls match risks – no problems encountered	1	
	Minor controls – ineffective	2	
	Controls ineffective – no problems in the past	3	
	Controls ineffective – major problems in the past	4	
	<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>		
2	CRITICALITY / MONETARY FACTORS (30%)		
1	Criticality		
	Insignificant impact on operational / strategic plan	1	
	Partial impact on operational / strategic plan	2	
	Significant impact on operational / strategic plan	3	
2	Expenditure		
	£0	1	
	£1-50,000	2	
	£50,000 – 250,000	3	
	£250,000 – 1,000,000	4	
	£1,000,000 – 5,000,000	5	
	£5,000,000+	6	
3	Income		
	£0	1	
	£1-50,000	2	
	£50,000 – 250,000	3	
	£250,000 – 1,000,000	4	
	£1,000,000 – 5,000,000	5	
	Above £5,000,000	6	
4	Stores		
	None	1	
	Below 1,000	2	
	Above 1,000	3	
5	Transactions		

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

Risks, Controls and Actions - Audit

as at 27.01.14

Risk Identified	Potential Consequences	Impact	Risk Rating	Control Measure	Final Risk Rating	Further Action Required
Audit						
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 Reallocate audit plan to free up capacity Staffing reviewed and benchmarked with other Staffordshire authorities. Audit manual Agency staff used when necessary Knowledge transfer	6	Raise with Kelvin Turner Review audit plan
Failure to Comply with the Public Sector Internal Audit Standards (PSIAS)	Criticism that we are not providing a level of assurance over the systems of internal control. Reputational damage and financial loss	3	3	Audit Plan document Anti-fraud and anti-corruption strategy Audit manual CIPFA matrices Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	3	First review of internal audit against the revised PSIAS 5 year review of PSIAS

Risk Count: 16

Risk Identified

Potential Consequences

Impact

Risk Rating

Control Measure

Final Risk Rating

Further Action Required

Risk Count: 16

Audit

Information provided not accurate or timely

Results in a false audit report - recommendations being made that are not relevant. Reputational issues for the Council. Possible financial implications dependant upon the nature of the audit and the information wrongly provided. Potential legal issues. Political issues possibly.

3

9

Notification of Audits given
Reminders for information given by email and telephone
Escalation process for information reminders
Verification of the source of the information
Analysis of information provided
Revised Internal Audit Protocol document recirculated with Audit Plan in January 2012.

6

Staff development
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
Employee Development interviews
Homeworking
Workforce Development Plan

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
Investigating procedures training undertaken

6

Shared service arrangements with other authorities for assistance with investigations and/or the audit plan.

Risk Identified	Potential Consequences	Impact	Risk Rating	Control Measure	Final Risk Rating	Further Action Required
Audit						
High Risk Recommendations not being implemented	Financial Implications, Reputational Damage, Political Consequences	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 Revised Internal Audit Protocol document recirculated with Audit Plan in January 2012.	6	Internal Audit protocol document to be circulated
Lack of co-operation from Managers	Financial Implications, Reputational Damage, Political Consequences, Disciplinary Action	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
Failure to deliver managed audit requirement of the Audit Commission	Financial Implications, Reputational Damage, Political Consequences, Third Party intervention	3	3	Audit Plan document Improve relationships and have regular meetings between External Audit and Audit Manager	6	

Risk Count: 16

Risk Identified

Potential Consequences

Impact

Risk Rating

Control Measure

Final Risk Rating

Further Action Required

Risk Count: 16

Audit

Risk Identified	Potential Consequences	Impact	Risk Rating	Control Measure	Final Risk Rating	Further Action Required
Failure to recognise/be aware of fraud/corruption	Financial Implications, Reputational Damage, Third Party Intervention, Political Consequeneces	3	6	Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues Statutory Officers Group 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 Condu to be followed Employee Code of Conduct to be followed Fraud Response Plan Whistleblowing policy and fraud response plan for parties contracting with the Council	6	Staff training using Moodle Results of staff survey to be analysed Policies need to be revised for the Bribery Act Publish online training package on fraud/corruption on Intranet site. New training module will be delivered via STEP
Failure to fully identify all relevant controls	Financial Implications, Reputational Damage, Third Party Intervention, Political Consequeneces	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	failure to deliver audit plan	3	6	Homeworking	3	

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Risk Identified	Potential Consequences	Impact	Risk Rating	Control Measure	Final Risk Rating	Further Action Required
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Audit

Risk Count: 16

				Knowledge transfer Agency staff used when necessary Employee Development interviews Absence management policy		
Failure of APACE	Failure to deliver the Audit Plan and to provide management reports to the Audit and Risk Committee and EMT Financial Implications	2	5	Use of Microsoft Office Products	1	Purchase of new Audit Management Sytem
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 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	3	Shared service arrangements with other authorities for assistance with investigations and/or the audit plan.

Risk Identified	Potential Consequences	Impact	Risk Rating	Control Measure	Final Risk Rating	Further Action Required
Audit						
Failure of External Audit providers 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 External Audit and Audit Manager Communication process in place Audit Plan document Continuing consultation and dialogue with External audit	3	
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 Revised Internal Audit Protocol document recirculated with Audit Plan in January 2012.	4	Internal Audit protocol document to be circulated
Low Risk recommendations not being implemented		1	4	Communication process in place Reminders for information given by email and telephone Revised Internal Audit Protocol document recirculated with Audit Plan in January 2012.	4	Internal Audit protocol document to be circulated

Risk Count: 16

<u>HEADING</u>	Internal Audit Charter 2014/15
<u>Submitted by:</u>	Audit Manager
<u>Portfolio:</u>	Finance and Resources
<u>Ward(s) affected:</u>	All

Purpose of the Report

To report to Members for information and approval the Internal Audit Charter. The Charter replaces the previously adopted Internal Audit Strategy and Terms of Reference.

Recommendations

- a) That the Internal Audit Charter for 2014/15 be approved
- b) The Internal Audit Charter to be reviewed and updated annually to ensure compliance with the Public Sector Internal Audit Standards (PSIAS)

Reasons

To comply with the requirements of the PSIAS.

1. **Background**

The Chartered Institute of Public Finance and Accountancy (CIPFA) in conjunction with the Institute of Internal Auditors (IIA) introduced the Public Sector Internal Audit Standards (PSIAS) which came into force on the 1 April 2013. The PSIAS replaces the previous CIPFA Code of Practice for Internal Audit in Local Government. Under the new PSIAS the purpose, authority and responsibility of internal audit must be formally defined in an internal audit charter.

The Internal Audit Charter replaces the previously adopted Internal Audit Strategy and Terms of Reference.

The PSIAS requires the Audit Manager to review the Internal Audit Charter periodically but final approval rests with the Audit Committee.

A copy of the Internal Audit Charter is attached as Appendix 1.

2. **Issues**

The Internal Audit Charter is a formal document and the PSIAS require that it should:

- Recognise the mandatory nature of the PSIAS.
- Define the scope of internal audit activities.
- Establish the responsibilities and objectives of internal audit.
- Establish the organisational independence of internal audit.

- Establish the accountability, reporting lines and relationships between the Head of Internal Audit and the Audit Committee and those to whom the Head of Internal Audit reports to functionally and administratively.
- Set out the responsibility of the Audit Committee and other officers with regards to internal audit.
- Set out the arrangements that exist within the organisations anti-fraud and anti-corruption policies, requiring the Head of Internal Audit to be notified of all suspected or detected fraud, corruption or impropriety, to inform the annual internal audit opinion and the risk-based plan.
- Recognise that internal audit's remit extends to the entire control environment of the organisation and not just financial controls.
- Establish internal audits right of access to all records, assets, personnel and premises, including those of partner organisations where appropriate, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

The PSIAS also specifies that the charter must:

- Define the terms "board" and "senior management" for the purpose of internal audit activity.
- Cover the arrangements for appropriate resourcing.
- Define the role of internal audit in any fraud related work and
- Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

3. **Options Considered**

To adopt the Internal Audit Charter 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"

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**

That the Internal Audit Charter be approved

5. **Reasons for Preferred Solution**

As option 3.1 above.

6. **Outcomes Linked to Corporate Priorities**

The Internal Audit Charter demonstrates 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 becoming a Co-operative Council which delivers high quality, community-driven services.

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**

The adoption of an Internal Audit Charter will ensure that the Internal Audit Consortium continues to provide a quality service in line with the PSIAS. The Internal Audit Risk Assessment has been updated to reflect this.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Audit Strategy 2012 to 2015 and Internal Audit Terms of Reference, Audit & Risk Committee – February 2013,

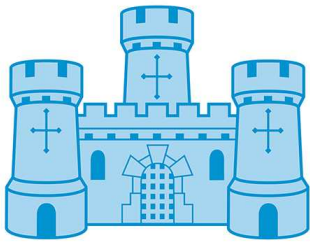
13. **List of Appendices**

Appendix A – Internal Audit Charter

14. **Background Papers**

Internal Audit Planning file/folder
PSIAS
CIPFA – Local Government Application note

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INTERNAL AUDIT CHARTER

2014/15

1. Introduction

- 1.1 The internal audit charter is a formal document that defines internal audit's purpose, authority and responsibility. The charter establishes Internal Audit's position within the organisation, including the nature of the Audit Manager's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities. It provides a framework for the conduct of the service and has been approved by the Council's Executive Management Team and the Audit Committee.

2 Purpose of Internal Audit

- 2.1 The accepted definition from the Institute of Internal Auditors states:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”¹

- 2.2 Internal Audit is therefore an assurance function which primarily provides an independent and objective opinion to the Council on its governance arrangements and internal controls.
- 2.3 Responsibility for governance rests predominantly with Executive Management Team and Heads of Service, who shall establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner and on the activities intended.
- 2.4 Internal Audit contributes to the proper, economic, efficient and effective use of the Council's resources by objectively examining the adequacy of its governance processes and reporting on their effectiveness in achieving the Council's objectives.
- 2.5 The Internal Audit Section does this by conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole of the Council and to all levels of management.

3 Objectives of Internal Audit

- 3.1 The primary objective of the Internal Audit Section is to give assurance to the Council on the adequacy of its governance arrangements. This is achieved by reviewing and evaluating: -
- The completeness, reliability and integrity of financial, performance, risk and other management information;

¹ Definition taken from “Public Sector Internal Audit Standards”

- The systems established to ensure compliance with corporate and departmental policies and procedures and legislative requirements
- The means of promoting appropriate ethics and values within the organisation; and
- The means of safeguarding assets.

3.2 The other objectives of the Internal Audit section are:

- To provide advice and support to ensure an effective control environment is maintained;
- To contribute to the achievement of Corporate objectives by recommending improvements in control and performance; and
- To provide advice and guidance to ensure Managers have developed effective arrangements to prevent and detect fraud and corruption including input in to the key policies such as Financial Regulations and the Anti-fraud and Anti-Corruption Policies.

4 Scope & Authority of Internal Audit

- 4.1 The requirement for an Internal Audit function derives from local government legislation, including section 151 of the Local Government Act 1972 which requires that all Local Authorities must “make arrangements for the proper administration of their financial affairs”. More specific requirements are set out in the Accounts and Audit Regulations 2011 which require the Council to “maintain an adequate and effective system of internal audit of their accounting records and control systems in accordance with proper internal audit practices”. This is reinforced in the Council’s Financial Regulations.
- 4.2 All of the Council’s activities, regardless of funding source, may be subject to review by Internal Audit. Internal Audit work will cover all of the operational and management controls within the Council. This does not imply that all systems will be subjected to review in any given year, but that all systems will be included in the audit planning process and hence be considered for review following the assessment of risk.
- 4.3 The scope of audit work extends to services provided through partnership arrangements. The Audit Manager will decide, in consultation with all parties, whether Internal Audit will conduct the work to derive the required assurance themselves or rely on assurance provided by other auditors. Where relevant, appropriate access rights will be negotiated and included in contracts and partnership agreements to ensure that Internal Audit can obtain access to the personnel and records within the partner organisation to obtain the necessary assurances.
- 4.4 The Internal Audit Section will consider the adequacy of the controls established by managers to secure propriety, economy, efficiency and effectiveness in all areas.
- 4.5 It is not the remit of the Internal Audit Section to question the appropriateness of policy decisions. However, the Section is required to examine the management arrangements of the Council by which such decisions are made, monitored and reviewed.

- 4.6 The Internal Audit Section may also conduct any special reviews, providing independent and objective services, such as consultancy and fraud related work as requested by Management. There will always be due consideration in planning this work to ensure that the Section maintains its objectivity and independence. The impact of taking on additional work on the audit plan will be taken into account and where necessary reported to the Executive Director Resources & Support Services and the Audit Committee for approval.
- 4.7 Internal Audit does not have responsibility for the prevention and detection of fraud or corruption. It is the responsibility of all Managers to ensure appropriate procedures are put in place to prevent and detect fraud. Internal Auditors should however, be alert in all their work to risks and exposures that could allow fraud or corruption to occur and to any indications that fraud or corruption may have been occurring.
- 4.8 In line with the Council's Anti-fraud and Anti-Corruption Framework, the Audit Manager should be notified of all suspected or detected fraud, corruption or impropriety within the Council. Where relevant the Internal Audit section will advise and assist Managers in the investigation of the fraud and corruption.

5 Responsibility of Internal Audit

- 5.1 The Council has a responsibility for conducting, at least annually, a review of the effectiveness of the governance arrangements and producing an Annual Governance Statement. The review of the effectiveness of the governance arrangements is informed by the work of the internal auditors; the managers within the authority who have responsibility for the development and maintenance of governance arrangements; and also by comments made by the external auditors and other review agencies and inspectorates.
- 5.2 To assist with this review the Audit Manager will produce an annual report covering each service area and any corporate issues that have been subject to Internal Audit review in the year. This annual report will include an opinion, based on the areas examined, on whether the Council's governance arrangements, including those for economy, efficiency and effectiveness, are adequate and have been properly applied in the year.
- 5.3 In order to provide the required opinion the Internal Audit Section will undertake a programme of work on the advice of the Audit Manager. The programme of work will aim to achieve the following objectives:
- to appraise the soundness, adequacy, and application of the whole internal control system;
 - to ascertain the extent to which the systems of internal control ensure compliance with current policies and procedures;
 - to ascertain the extent to which assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses arising from fraud, irregularity or corruption;
 - to ascertain that accounting and other information is reliable as a basis for the production of accounts, and financial, statistical and other returns;

- to ascertain the integrity and reliability of financial and other information provided to management, including that used in the decision making processes;
 - to ascertain that systems of control are laid down and operate to promote the economic and efficient use of resources;
 - to investigate, where appropriate, frauds or significant breaches of the internal control system.
- 5.4 Managers and not Internal Audit have ultimate responsibility for ensuring that internal controls throughout the Council are adequate and effective. This responsibility includes the duty to continuously review internal controls and ensure that they remain suitable in design and effective in operation. The existence of Internal Audit does not diminish the responsibility of management to establish and maintain systems of internal control to ensure that activities are conducted in a secure, efficient and effective manner.
- 5.5 Responsibility for the response to advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it accepting the risks involved in doing so. Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later stage.

6 Statutory Requirement and Standards of Approach

- 6.1 The work of the Internal Audit Section will be performed with due professional care and in accordance with the Accounts and Audit Regulations 2011 and the Public Sector Internal Audit Standards (PSIAS) and any subsequent guidance which updates or replaces these.
- 6.2 The Internal Audit Section will adopt a predominantly risk based systems approach to auditing in order to meet its primary objective of reviewing the governance arrangements of the Council. In undertaking its work the Section will:
- identify all elements of control systems on which it is proposed to place reliance;
 - evaluate those systems, identify inappropriate or inadequate controls and recommend improvement in procedures or practices;
 - provide advice on the management of risk, predominantly but not exclusively surrounding the design, implementation and operation of systems of internal control;
 - produce clear reports that provide management with an opinion on the soundness, adequacy and application of internal controls;
 - ascertain that those systems of internal control are designed and operate to achieve the most economic, efficient, and effective use of resources;
 - draw attention to any apparently uneconomical or unsatisfactory result flowing from decisions, practices or policies;
 - contribute to the general management and conduct of business through the provision of expertise on appropriate working-groups and participation in ad-hoc exercises, subject to adequate resources being available in the audit plan; and
 - liaise with External Auditors.

- 6.3 All Internal Auditors working in Local Government are required to comply with the Code of Ethics contained in PSIAS in addition to any requirements placed on them by the Council or any other Professional Body that they are members of.

7 Independence of Internal Audit

- 7.1 The Internal Audit Section will remain independent of the systems and procedures which are subject to its review. Internal Audit will also remain free from interference by any element of the Council and the scope of its work will not be restricted in any way.
- 7.2 To enable the auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations Internal Audit staff will not be responsible for activities outside of Internal Audits main responsibilities. All audit staff will act with due professional care ensuring that they are fair and objective, free from any conflicts of interest and abide by professional standards and guidelines.
- 7.3 In seeking to provide an independent and objective opinion it is accepted that, being located within the organisation, the Internal Audit function cannot be wholly independent of all management. Internal Audit's independence will therefore be achieved through its organisational status although the Audit Manager is also the Council's Monitoring Officer this does not undermine or compromise the independence. Consideration was given as to whether or not there would be any conflict with regards to the issue of Independence, however given the similarity in nature to both the roles it is felt that there would be no compromise to independence.
- 7.4 The Audit Manager will make the Audit Committee aware if the independence of Internal Audit is impaired or appears to be impaired. The nature of such a disclosure will depend upon the nature of the impairment.
- 7.5 Internal Audit staff are often consulted during system, policy or procedure development. This is a good practice as it enables comments to be made on potential control weaknesses and tries to ensure that systems, policies or procedures are adequate prior to being introduced. However, this does not preclude Internal Audit staff from reviewing and making comments for improvements during routine audits or other reviews where they were consulted during the system, policy or procedure development stage.
- 7.6 The Internal Audit Section determines its work priorities in consultation with senior management, the s151 Officer and the Audit Committee.
- 7.7 The Audit Manager reports to the Executive Director Resources & Support Services who is also the Council's s151 Officer, and has a right of access to the Chief Executive, Chair of the Audit Committee or External Auditor where it is deemed necessary.
- 7.8 The Audit Manager reports functionally to the Audit Committee in relation to the Internal Audit Plan, Annual Audit Report and periodic updates of Internal Audit work.

- 7.9 The Audit Manager is responsible for the content of all written reports produced by the section. The Audit Manager has the right to report in her own name and offer an audit opinion without “fear or favour” to all officers and members and in particular to those charged with governance at the Council.

8 Authority and Rights of Access

- 8.1 In order to perform their duties Internal Audit has the authority, as set out in the Council’s Financial Regulations, to:
- enter at all reasonable times, any Council premises or land;
 - have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary;
 - evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud;
 - request explanations as considered necessary to provide assurance as to the correctness of any matter under examination;
 - require any employee of the Council to produce cash, materials or any other Council property in their possession or under their control;
 - access records belonging to third parties, such as contractors, when required and
 - directly access the Chief Executive, the Cabinet and the Audit and Risk Committee.
- 8.2 Where necessary such rights of access may be called upon and should be granted to Internal Auditors on demand and not subject to prior notice or approval.
- 8.3 All employees are required to assist Internal Audit in fulfilling its roles and responsibilities.
- 8.4 The Internal Audit Section will comply with any requests from External Auditors for access to any information, files or working papers obtained or prepared during the audit work that they need in order to discharge their responsibilities.

9 Objectivity & Confidentiality

- 9.1 Internal Auditors must demonstrate the highest level of professional objectivity in gathering, evaluating and communicating information about the function or process being examined. They must make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.
- 9.2 All records documentation and information accessed in the course of undertaking Internal Audit activities shall be used solely for that purpose. The Audit Manager and individual Internal Auditors (including contractors and external providers performing work on behalf of internal audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.
- 9.3 All Internal Audit reports are confidential however they may be requested under the freedom of information legislation. The Audit Manager must be consulted before making the report available under FOI and where necessary elements of the report can be redacted.
- 9.4 The Audit Manager should also be consulted before any Internal Audit Report or extracts from it are included in a committee report or released to any other party.

10 Internal Audit Resources

- 10.1 The Council has a duty to provide sufficient resources to allow an adequate and effective Internal Audit service to be provided. Where it is felt that the resources are inadequate to meet the objectives of the Internal Audit Section, the Audit Manager will report this to the Executive Director Resources & Support Services as Section 151 Officer, who will formally report this to the Chief Executive and the Audit Committee.
- 10.2 The staffing structure of the section will comprise a mix of professional and technician posts in order to provide a wide knowledge and skills base. The Audit Manager will hold a relevant professional qualification (CMIIA², CCAB³ or equivalent) and be suitably experienced.
- 10.3 The Audit Manager is responsible for ensuring that Internal Auditors receive appropriate training and experiences to fulfil their duties and that levels of competence are maintained via the use of continual professional development.
- 10.4 Where necessary access to appropriate specialists from other departments or external sources should be made available to the Internal Audit Section to assist in any audit or investigation requiring detailed specialist knowledge.

² CMIIA –Chartered Member of the Institute of Internal Auditors

³ CCAB- Consultative Committee of Accountancy Bodies which includes CIPFA, ACCA and the ICAEW

11 Internal Audit Management

11.1 The Audit Manager is responsible for the day-to-day management of the Internal Audit Section and fulfils the requirements of the “Chief Audit Executive” role required by the PSIAS. The Audit Manager will:

- prepare an Audit Strategy;
- prepare an audit plan to review all relevant areas, and to update the plan regularly to account for changes in Council priorities and risks. The plans will be presented to the Audit Committee on a regular basis;
- produce operational plans for each auditor to achieve the annual audit plan;
- ensure the issue of an Audit Brief for each assignment undertaken setting out the scope and objectives of the work, timescales and reporting arrangements, and obtain the approval of the relevant Head of Service for the Audit Brief;
- ensure that relevant testing is carried out on which sound judgements can be based;
- ensure that work is undertaken, completed and issued in a timely manner;
- ensure that a written report is produced for each assignment giving an opinion on the control environment and identifying actions to address any weaknesses;
- ensure that follow-up work is undertaken, where appropriate, to monitor the implementation of agreed management actions;
- ensure that all audit work is completed to high standards in accordance with relevant professional standards;
- establish and maintain effective relationships with managers of all levels and obtain feedback from them on the work of the section including the use of user satisfaction surveys;
- monitor the work of the Audit Committee and consider, where appropriate, whether changes need to be made to the Internal Audit Plan as a result of the issues arising from the work of the Audit Committee.
- establish and maintain effective relationships with the External Auditors;
- monitor the effectiveness of the service delivered to clients and compliance with relevant standards;
- undertake an annual review of the development and training needs of internal audit employees and arrange for appropriate training to be provided to address the needs where possible: and
- develop and maintain a quality assurance and improvement programme covering all aspects of Internal Audit Activity.

12 The Internal Audit Plan

12.1 The work of the Internal Audit Section is based on the delivery of a risk based Audit Plan and is conducted on a predominantly risk based systems audit approach. The Section prepares a new Audit Plan each year in line with the requirements of the PSIAS.

12.2 The Audit Plan is derived from all of the areas that have been identified for review (The Audit Universe) following an assessment of the risks relating to each area based on a number of criteria adapted from a risk scoring model developed by the Institute of Internal Auditors.

12.3 Account is taken of the risks identified in the Council's strategic risk register and Internal Audit also undertakes its own assessment of the potential areas for audit review to define the Audit Universe

12.4 Each area of activity is scored across a range of criteria as set out in the table below:-

Internal Control Quality (25%)	Segregation of duties
	Documentation
	Quality/Reliability
Criticality/Monetary Factors (30%)	Criticality
	Expenditure £
	Income £
	Stores
	Transactions
Environmental Change (20%)	Personnel Structure
	Systems changes
	Growth
	Incidence of local/national fraud
Complexity (10%)	Systems –computer/manual
	Technicality
Legal and Regularity Considerations (5%)	
Political Sensitivity (10%)	

12.5 The resulting scores are banded into three risk categories

- High – A risks (scores over 220);
- Medium- B risks (scores between 150 and 219); and
- Low – C risks (scores between 100 and 149).

12.6 The risk scores are reviewed each year. The review results in some scores increasing, some decreasing and some remaining unchanged. This in turn has an affect on the risk category assigned to each area, for example a medium risk this year could become a high risk or a low risk next year.

12.7 Once the risk scores have been updated the audits are ranked in accordance with the risk scores and this is compared to the resources available within the section to determine the areas that can be reviewed in the year. The Section will usually review all High Risk areas and a selection of Medium Risk areas each year.

- 12.8 Meetings will be held with all members of Executive Management Team each year to obtain input on the identification of the Audit Universe and in the compilation of risk scores. In addition views on the timings of reviews will also be sought from the relevant member of Executive Management Team.
- 12.9 The Internal Audit Plan is presented to the Audit Committee for approval, usually in February each year.

13 Reporting Lines

- 13.1 The Audit Manager reports to the Executive Director Resources & Support Services for line management purposes. However, alternative reporting lines are available to the Audit Manager where these are deemed necessary as set out in section 7.7.
- 13.2 The Audit Manager will report functionally to the Audit Committee in terms of the Internal Audit Plan and the reporting of the outcome of the work including the issuing of an annual report and opinion.
- 13.3 The Audit Manager will present the annual audit plan to members of Executive Management Team, the s151 Officer and the Audit Committee. This plan will be approved by the Audit Committee.
- 13.4 An annual report will be presented to the Audit Committee covering the work of the Internal Audit Section at the conclusion of the year. This report will also be a key source of assurance for the Council's Annual Governance Statement (AGS) and must be presented no later than the meeting at which the AGS is considered and approved.
- 13.5 The Audit Manager will monitor and report on the work of the team on a regular basis. Regular reports outlining progress against the Internal Audit Plan and summarising the assurances given for completed audits will be presented to the Audit Committee.
- 13.6 The Internal Audit Section will produce a written report for all assignments addressed to the Service Lead Officer (normally the relevant member of Executive Management Team).
- 13.7 The Audit Manager will be responsible for reviewing the implementation of recommendations. At the Audit Manager's discretion the failure to implement fundamental recommendations or a significant number of recommendations will be reported to the s151 Officer, Chief Executive or Executive Director, relevant Head of Service and the Audit Committee as appropriate.
- 13.8 The Audit Manager will report to the s151 Officer any serious weaknesses or significant fraud identified from the course of Internal Audit work or reported to Internal Audit. The matter may also be reported to the Chief Executive, relevant member of Executive Management Team, the External Auditors and the Audit Committee as appropriate.

14 Quality Assurance and Improvement Programme

- 14.1 The Audit Manager will develop and maintain a Quality Assurance and Improvement Programme (QAIP) in accordance with PSIAS.
- 14.2 The QAIP will form the basis of the annual review of the system of internal audit as required by the Accounts & Audit Regulations 2011. For Internal Audit sections operating in Local Government proper practice is now deemed to be PSIAS plus the CIPFA Local Government Application Note (LGAN).
- 14.3 The QAIP will show conformance with PSIAS/LGAN requirements and will offer explanations where conformance with PSIAS/LGAN is not achieved. An action plan may be developed as a result of the QAIP to achieve or improve levels of conformance. The outcome of the review and any resulting action plan will be reported to the Audit Committee.
- 14.4 An independent external review of Internal Audit will be carried out as part of the QAIP at least once every five years. The Executive Director Resources & Support Services as s151 Officer will act as sponsor to agree the scope and nature of the external review with the Audit Manager and the external reviewer.
- 14.5 Where non-conformance with PSIAS/LGAN impacts on the overall scope or operation of Internal Audit activity the nature of the impact will be disclosed to the Audit Committee. Serious deviations from conformance need to be considered for inclusion in the Council's Annual Governance Statement.

15 Relationship With Elected Members

- 15.1 The Executive Director Resources & Support Services and the Audit Manager will maintain a working relationship with the Chair and other members of the Audit Committee. Where necessary the Audit Manager will have direct access to the Chair of the Audit Committee.
- 15.2 Unless stated elsewhere, the Audit Committee will fulfil the roles and responsibilities of "The Board" for the purposes of the PSIAS.

16 Relationship with Senior Management

- 16.1 The members of Executive Management Team will fulfil the role of "Senior Management" as defined in the PSIAS. The Audit Manager will work to maintain an on-going relationship with all members of the Executive Management Team.
- 16.2 A written report will be produced for each assignment and presented to the relevant member of the Executive Management Team. This report will:-
 - include an overall opinion on the adequacy of the internal control environment for the area under review;
 - identify any areas of weaknesses in the control environment and risks which have not been addressed;
 - make recommendations for the necessary improvements needed to address the weaknesses identified;
 - detail management's response and timescales for corrective action to be taken.

17 Review of the Internal Audit Charter

- 17.1 The Audit Manager will review the Audit Charter annually and any revision will be presented to the Executive Management Team and Audit Committee for approval.

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