

Public Document Pack

Date of meeting Monday, 15th February, 2016
Time 7.00 pm
Venue Training Room 1 - Civic Offices, Merrial Street,
Newcastle-under-Lyme, Staffordshire, ST5 2AG
Contact Geoff Durham

Audit and Risk Committee

AGENDA

PART 1 – OPEN AGENDA

- 1 Apologies
- 2 **DECLARATIONS OF INTEREST**
To receive Declarations of Interest from Members on items included in the agenda
- 3 **MINUTES OF PREVIOUS MEETINGS** (Pages 3 - 6)
To consider the minutes of the previous meeting(s).
- 4 **Corporate Risk Management Report October to December 2015** (Pages 7 - 12)
- 5 **Internal Audit Plan 2016/2017** (Pages 13 - 30)
- 6 **Internal Audit Charter 2016/2017** (Pages 31 - 48)
- 7 **Adoption of Internal Audit High Risk Recommendations and Summary of Assurance** (Pages 49 - 56)
- 8 **Internal Audit Progress Report** (Pages 57 - 70)
- 9 **URGENT BUSINESS**
To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972

Members: Councillors Dymond (Vice-Chair), Loades, Owen, Pickup (Chair), Waring and Hambleton

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

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

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

FIELD_TITLE

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

AUDIT AND RISK COMMITTEE

Monday, 16th November, 2015

Present:- Councillor Ms Sarah Pickup – in the Chair

Councillors Burgess, Dymond, Loades, Owen, Waring and Hambleton

1. DECLARATIONS OF INTEREST

There were no declarations of interest stated.

2. MINUTES

Resolved: That the minutes of the previous meeting be agreed as a correct record.

3. HEALTH AND SAFETY

A report was submitted to inform Members of issues and trends regarding health and safety at the council.

Officers stated that there had been an update to the Corporate Health and Safety Policy and Employees Handbook, which incorporated changes to Health and Safety Legislation and the revision of some internal Health and Safety Policies.

It was also confirmed that there was currently a full review being undertaken in relation to lone working and a questionnaire had been sent to all Business Managers. Members queried whether lone working included home working, it was confirmed that this was the case and that home working would be included in the review.

Resolved: That the report be noted.

4. CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD JULY TO SEPTEMBER 2015

A report was submitted to inform Members of the progress made by the Council in enhancing and embedding risk management for the period July to September 2015, including progress made in managing identified corporate risks.

A new risk had been added and details of this were at 3.4 in the report. The new risk was shown to have a final rating of High Red 9 in relation to the risk of failure of staff to transfer on to revised contract conditions in respect of the Implementation of the new Recycling and Refuse service. This risk had however been reduced since the report had been published and would not be included on the next report.

A query was raised as to why there was no high risk relating to the financial situation of the Council. Officers stated that a plan was in place regarding the current financial position of the Council which covered a number of different risks. The fact that action plans were in place meant that the risks were not currently high enough to trigger being reported to the Committee. Assurances were given by the Sections151 Officer and Grant Thornton regarding this.

Resolved:

- (a) That the Committee note the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers, where applicable.
- (b) That the Committee note the point 2.1.1 showing no overdue risks.
- (c) That the Committee note the point 2.2.1 advising of no risk level increases.
- (d) That the Committee note the point 2.2.2 regarding a new risk that has been identified between July to September 2015.
- (e) That the Committee Identify, as appropriate, individual risk profiles to be scrutinised in more detail at the next meeting of the Committee.

5. TREASURY MANAGEMENT

A report was submitted requesting that the Committee receive the Treasury Management Half Yearly Report for 2015/16 and that it review the Treasury Management activity for this period.

It was highlighted on page 18 of the agenda that a further payment from the Heritable Bank had been received taking the amount of money recovered to 98%.

Resolved: That the Treasury Management Half Yearly Report for 2015/16 be received.

6. ANNUAL AUDIT LETTER

Resolved: That the Annual Audit Letter be received.

7. INTERNAL AUDIT PROGRESS REPORT (QUARTER TWO)

A report was submitted in relation to the work undertaken by the Internal Audit section during the period 1st July to 30th September 2015. The report identified the key issues raised. The full individual reports issued to Officers contained the key issues plus a variety of minor issues and recommendations.

The Audit Manager stated that the section was currently implementing a new audit system and that training regarding this was taking longer than expected.

The attention of the Committee was drawn to paragraph 2.7 of the report which dealt with corporate fraud.

Since 1 May 2015 there had been 31 cases investigated in relation to non-benefit fraud which had included Single Person Discount Fraud (SPD) and Council Tax Reduction Fraud, Blue Badge and undeclared residences. Work was being carried out with Stoke on Trent City Council in relation to the North West Staffordshire Corporate Fraud Hub which would see joint working across both the City Council and also Staffordshire County Council and a number of Registered Social Landlords, including Aspire Housing.

Resolved: That the report be received and noted.

8. **ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JULY TO 30 SEPTEMBER 2015 (QUARTER TWO)**

A report was submitted regarding 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.

The report also sought to provide Members with an assurance opinion on internal controls over Council Services.

Some concerns were raised regarding the fact that Planning was listed as well controlled. The Audit Manager confirmed that out of the sample cases investigated this was the case. It was suggested that in the future a larger sample could possibly be used.

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

9. **URGENT BUSINESS**

There was no Urgent Business.

COUNCILLOR MS SARAH PICKUP
Chair

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

15 February 2016

**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD October to
December 2015**

Submitted by: Simon Sowerby - Business Improvement Manager

Portfolio: Policy, People and Partnerships

Ward(s) affected: All

Purpose of the Report

To inform Members of the progress made by the Council in enhancing and embedding risk management for the period October to December 2015, including progress made in managing 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 point 2.1.1 showing no overdue risks.**
- (c) Note the point 2.2.1 advising of no risk level increases.**
- (d) Note the point 2.2.2 regarding a new risk that has been identified between October to December 2015.**
- (e) Identify, as appropriate, individual risk profiles to be scrutinised in more detail at the next meeting of the Committee.**

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 allow the process to become further embedded at each level of the authority. This will also aid the identification of key risks that potentially threaten the delivery of the Council's corporate priorities. The Risk Management Strategy provides a formal and proportionate framework to manage these identified risks and thus reduce the Council's exposure.

1. **Background**

- 1.1 The Council monitors and manages all its risks through the various risk profiles contained within GRACE (Governance Risk and Control Environment) – the Council's software used to record and manage risks.
- 1.2 The Council currently reviews its high (red 9) risks at least monthly and its medium (amber) risks at least quarterly.
- 1.3 The last review of these risks was reported to the Council's Audit & Risk Committee in November 2015.
- 1.4 Risk owners are challenged by the Council's Risk Champions in respect of the controls, further actions, ratings and emerging risks related to their risks, and are also challenged on the reasons for inclusion or non-inclusion and amendment of these.
- 1.5 Projects are managed to a high level in relation to risk and are reviewed in accordance with the Risk Management Strategy (i.e. at least monthly).

2. **Issues**

- 2.1 Further to an Audit Assurance recommendation, your officer has been asked to report on overdue risk reviews that are 6 months out of date.
 - 2.1.1 At the time of the running report, there were no overdue risks.
- 2.2 Following a previous review a report was produced to show any risks where the risk level has increased.
 - 2.2.1 Your officer can report that there have been no risk level increases during the period October to December 2015.
 - 2.2.2 There has been one (1) new risk added to any profiles during October to December 2015 and this can be seen on Appendix A.
 - 2.2.3 Should there be any increase during January to March 2016 these will be reported to the next Committee meeting.

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

- 3.1 The Council regularly reviews and refreshes its risk registers in accordance with the Risk Management Strategy.
- 3.2 These reviews are co-ordinated by the Strategic Risk Champion who works closely with Directors, Operational Risk Champions and Risk Owners.
- 3.3 The risk map below shows the descriptions of the ratings, for ease of use.

L I K E L	High	7 Amber	8 Amber	9 High Red
	Medium	4 Green	5 Amber	6 Amber

I H O O D		1 Green	2 Green	3 Amber
	Low	1 Green	2 Green	3 Amber
		Low	Medium	High
IMPACT				

3.4 During this quarter there has been one additional risk added with a final rating of Medium Amber 8 in relation to the risk of malicious software incursion.

3.5 Appendix A now highlights the risks that fall into the top line of the above risk map.

4. Issues from last meeting

4.1 None.

5. Outcomes Linked to Corporate and Sustainable Community Priorities

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

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

6. Legal and Statutory Implications

6.1 The Accounts and Audit (England) Regulations 2015, 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”*

7. Equality Impact Assessment

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

8.1 Financial and Resource Implications

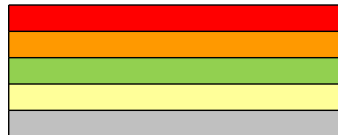
8.1 None where actions are to be taken in order to mitigate the risks as these will be met from within existing budgets. Where this is not possible, further reports will be submitted to Members.

9. List of Appendices

Appendix A – Notable High and Medium risks

10. **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 A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk in order to reduce the risk	Target Date for action completion	Risk Category Strategic, Operational, Project	Current position / progress as at 01/02/2016	Status as at June 15	Status as at Sept 15	Current Rating as at Dec 15
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

Notable High and Medium Risks - Appendix A

Appendix A									
Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current progress	position	Status	Status	Current Rating
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 01/02/2016		as at June 15	as at Sept 15	as at Dec 15
2	Members not adhering to Officers advice	Resources & Support Services		Throughout the year	Strategic	A report was considered by Cabinet on 11 November 2015 demonstrating progress and completion of any outstanding actions. It was agreed that subject to a report coming forward on the Community Infrastructure Levy no further reports on the Action Plan be required.	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9
3	Failure to engage or consult with key stakeholders	Communication Strategy			Project	Consultation framework and toolkit in place and available for staff on the Intranet to assist with correct approach.	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8
4	Immigration issues - from countries affected by Civil unrest or wars	Strategic Housing	To support Staffordshire County Council (as lead organisation) and other local partners in responding to the Government's request for support in relocating Syrian Refugees.	Ongoing	Operational	Legal agreement being drafted to engage private landlords	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8
5	Malicious software incursion	ICT Services	Numerous controls in place for this risk to try to prevent any incursions	Ongoing	Operational				I = 2 L = 3 Medium 8

MEETING BEING SUBMITTED TO Audit and Risk Committee

1. **HEADING** Internal Audit Plan 2016/17
- Submitted by:** Audit Manager
- Portfolio:** Finance IT and Customer
- Ward(s) affected:** All

Purpose of the Report

To inform Members of the proposed Internal Audit Plan for 2016/17 and to seek their approval as to its contents.

To agree with members the reporting arrangements for performance against the 2016/17 proposed plan.

Recommendations

A That the Internal Audit Plan for 2016/17 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.

1.0 **Background**

- 1.1 The Local Government Accounts and Audit Regulations 2015 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.

In terms of Governance the Audit Manager is also the Councils Monitoring Officer, a role that she has undertaken since 2014. Careful consideration was given to this to ensure that this did not undermine the independence role of the audit, however given the similarity in nature to both the roles it was felt that there would be no compromise to independence. In fact as part of the research for this it was found that there have been occasions in other authorities where the role of Monitoring Officer has also been undertaken by the Head of Audit, in a combined post.

2.0 **Issues**

Internal Audit Plan for 2016/17

- 2.1 The Internal Audit Plan is calculated in terms of audit days, 526 for 2016/17, see Appendix A, this is based on a full risk assessment of each audit area which considers expenditure, income, management controls, operational practices, political and legislative influences and the risk of fraud. In accordance with the PSIAS the plan is fixed for no longer than one year and outlines the areas to be covered together with the estimated resource, in terms of audit days required to complete the reviews.
- 2.2 Information from risk assessments on each audit area is subjected to a weighted risk assessment process to allocate the available resources to those audit reviews identified to be of greatest risk. At present the risk model is set up to ensure all areas are covered over a three year cycle. Appendix B shows an example of the risk assessment conducted against each audit area. In addition to this Executive Directors and Heads of Service are requested

to raise any new areas that may require auditing or a change in practices to existing audit areas and to comment on the proposed annual plan and resultant Audit Services. At the beginning of each audit a brief is sent to Executive Directors and Heads of Service highlighting the objectives of the audit and requesting any comments or inputs into the proposed work. At the end of every audit a new risk assessment is completed to reflect any changes to the audit area and therefore risks, and this is then subject to the weighted risk assessment process and the plan is updated annually.

- 2.3 In producing the Audit Plan for 2016/17 using the existing risk model and in an ideal situation where the Internal Audit Team is fully resourced on a regular basis, a total of 938 productive days are required if all risks are to be covered. However, this model has to be balanced against the resources available and those reasonable for an authority of this size. Audit days available for 2016/17 have been calculated at 526. 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 247 days and 279 days for 'B' risk areas.
- 2.4 Given the resources available for 2016/17 a total of 412 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 143 days were identified for areas that were no longer relevant and included reviews such as Pericles Replacement, Agresso System, Use of Resources, Objective 2 Funding, Slum Clearance, NMP Exit Strategy Content Management System and Renew.
 - since 2011/12 key financial systems are reviewed on a rotational basis whereby half the systems are done in full and the other half are just reviewed in terms of key controls, this has allowed for a further 45 days to be adjusted from the plan for 2016/17,
 - the remaining 224 days were identified by reviewing days already allocated to audit reviews in the plan and some audit areas that had been completed in 2015/16 and as a result did not warrant a further review in 2016/17.
- 2.5 There have been a number of new areas identified for review during 2016/17; these include Electronic Document Records Management, SubLyme (Communications Company), and Ethical Governance. In terms of these reviews these have been identified by Heads of Service as new areas or identified as a growing area thorough networking with local and national audit forums. One such area identified through the latter is that of Ethical Governance, this is not to be confused with Corporate Governance which looks at the Annual Governance Statement but which looks more widely at the overall governance requirements as set out in the Localism Act 2011, to ensure that there are adequate arrangements in place
- 2.6 When deciding on which areas to leave in the plan and which to remove a number of factors were taken into consideration these included the date of the last audit, knowledge gathered as part of other reviews, and feedback from Heads of Service etc.
- 2.7 During 2015/16 work began to replace the current audit management system APACE with a new fully integrated and modern internal audit management system, Ideagan (Pentanna). APACE has been in place since 2002 and is now considerably outdated. Implementation of this system has been slower than has originally anticipated due to a number of factors including staff resource due to a member of the audit team being seconded to Finance to cover a period of maternity leave and a number of special investigations which have had to take precedence. Work is progressing with the system and it anticipated that we will be in a position to go live with the new system early in the new financial year once we have been able

to fully test all the functionality which will include the automation of recommendation tracking and performance reporting.

- 2.8 Since May 2015, a Corporate Fraud Officer has joined the Internal Audit Team, the post transferred from Revenues and Benefits following the transfer of Benefits Investigation Staff to the Department of Work and Pensions (DWP) under the Single Fraud Investigation Service (SFIS). This post provides a resource to look at some of the issues of Corporate Fraud and a number of specific projects have also been included in the Audit Plan for 2016/17 which includes the National Fraud Initiative and Procurement. In addition we are continuing to work with Stoke-on-Trent City Council as part of the North West Staffordshire Corporate Fraud Team. Operationally this joint venture will see the set-up of a data hub which will allow all the organisations to share information across the different service areas and will also incorporate the award winning 'Spot the Cheater' campaign being rolled out across Borough.

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 2016/17 will be provided by Information Security Advice Limited.

4.0 Proposal

- 4.1 In agreeing the proposed Audit Plan for 2016/17 members are agreeing to a review of all audit areas listed, following a risk assessment based on the information available for review during 2016/17 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.

5.0 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.

6.0 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.

7.0 **Legal and Statutory Implications**

7.1 The Accounts and Audit Regulations 2015 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

8.0 **Equality Impact Assessment**

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

9.0 **Financial and Resource Implications**

Resourcing of the Internal Audit Section

9.1 The present Internal Audit Section has 4.5 posts, which include the Audit Manager and 3.5 operational staff, including one Corporate Fraud Officer providing, a combined total of 496 days in addition 30 days are brought in from specialist external computer auditors,

9.2 The provision of computer audit for 2016/17 will be delivered by Information Security Advice Limited.

9.3 The Audit Plan for 2016/17 can be provided within current revenue budgets provided that the staffing resources remain unchanged from estimates used in support of the proposed plan.

10.0 **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

11.0 **Key Decision Information**

11.1 Not applicable.

12.0 **Earlier Cabinet/Committee Resolutions**

12.1 Not applicable.

13.0 **List of Appendices**

Appendix A Proposed Internal Audit Plan 2016/17

Appendix B A risk assessment conducted against each audit area

Appendix C Risk Assessment in respect of the Audit Service

14.0 **Background Papers**

14.1 Internal Audit Plan 2016-17-(Electronic file)

Internal Audit Plan
2016/17

Audit Areas	Risk	Days
Chief Executives		
Communications – SubLyme Company	B	10
Risk Management	B	20
Land Charges	B	10
Court Fees**	B	5
Committee Services**	B	10
Chief Executive Total Days		55
Resources & Support Services		
Payroll	A	20
Data Protection	B	5
Income Collection (key controls)	A	5
Council Tax	A	25
Creditors	A	25
Asset Management – Capital (key controls)	A	5
General Ledger – Civica	A	10
Treasury Management	A	10
Information Security	B	8
Housing Benefits	A	20
National Non Domestic Rates	A	20
National Fraud Initiative	A	10
Car Loans	B	15
Money Laundering	B	3
Post Opening	A	2
Human Resources – Code of Conduct**	A	5
Disaster Recovery	B	7
Third Party ICT Security *	B	5
ICT Applications Patching *	B	6
Virtual Desktop Infrastructure *	B	5
ICT Service Desk *	B	6
Resources and Support Services Total Days		217
Operational Services		
Operational Services Administration	B	10
Current and Final Accounts	A	10
Jubilee 2	B	20
Community Centres**	B	10
New Refuse Service	B	20
Park Attendants**	A	2
Recycling Credits	B	10

Operational Services Total Days		82
Regeneration & Development Services		
Food Safety	B	8
Health and Safety	B	10
Asset Disposals	A	15
Environmental Protection	B	10
Current and Final Accounts	A	10
Conservation Service**	B	5
Civic Hub/Ryecroft Development	A	5
Application Review – Authority Public Protection (APP) System*	B	8
Housing Strategy	B	5
Regeneration and Development Services Total Days		76
Corporate Functions		
Gifts Hospitality & Private work/interests	A	5
Performance Management	A	10
Corporate Governance	A	10
Credit Checks/Financial Appraisals	A	3
Partnerships	B	10
Procurement	A	20
Email and Internet Usage	B	8
Information Asset Registers	B	10
Ethical Governance**	B	10
Electronic Document Records Management	B	5
Information Assurance Overview	B	5
Corporate Functions Total Days		96
Total Days for 2016/17		526

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

** denotes audit areas carried forward from 2015/16 audit plan

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(10%)		
	Not politically sensitive	1	
	Some political pressure group interest	2	
	Considerable interest, client sensitivity and impact of failure on other systems	3	
	Date risk analysis updated on APACE		
	Signature of administrator		

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AUDIT REPORT - As of 25.01.16*

Directorate/Service: Audit, Risk Assessment open, Current Risk version, Risk is open, Final Risk Rating is at or greater than Low Green 1, Final Risk Rating is at or less than High Red 9

Risk	Risk Description	Impact	Risk Rating	Existing Control Measure	Treatment Description	Final Risk Rating
<i>Items in Group: 17</i>						
Failure to recognise/be aware of fraud/corruption	Failure to recognise/be aware of fraud/corruption	3	6	Anti-fraud and anti-corruption framework	Anti-fraud and anti-corruption framework and fraud response plan	6
				Financial Regulations	Financial Regulations	
				Fraud manual for Heads of Service	Fraud manual for Heads of Service	
				Money laundering policy		
				Standing Orders	Standing Orders	
				Fraud Awareness - A Guide for Managers	Fraud Awareness - A Guide for Managers	
				Countering Fraud and Corruption Staff Survey	Countering Fraud and Corruption Staff Survey	
				Fraud Response Plan	Fraud Response Plan	
				Whistleblowing policy and fraud response plan for parties contracting with the Council	Whistleblowing policy and fraud response plan for parties contracting with the Council	
				Member Code of Condu to be followed	Member Code of Condu to be followed	
Employee Code of Conduct to be followed	Employee Code of Conduct to be followed					
Failure to retain key staff with experience & skills	Failure to retain key staff with experience & skills	3	9	Employee Development interviews	Employee Development interviews	6
				Homeworking	Homeworking	
				Flexible working	Flexible working	
				Business continuity identified through process mapping	Business continuity identified through process mapping	
				Workforce Development Plan	Workforce Development Plan	

Risk	Risk Description	Impact	Risk Rating	Existing Control Measure	Treatment Description	Final Risk Rating
High Risk Recommendations not being implemented	High Risk Recommendations not being implemented	3	6	Communication process in place Escalation process for information reminders Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues Reminders for information given by email and telephone Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014	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 February 2014	6
Information provided not accurate or timely	Information provided not accurate or timely	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 February 2014	Notification of Audits given 5 days in advance 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 February 2014	6
Lack of co-operation from Managers	Lack of co-operation from Managers	3	6	Communication process in place Escalation process for information reminders Notification of Audits given Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues Reminders for information given by email and telephone	Communication process in place Escalation process for information reminders Notification of Audits given 5 days in advance Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues Reminders for information given by email and telephone	6

Risk	Risk Description	Impact	Risk Rating	Existing Control Measure	Treatment Description	Final Risk Rating
Lack of resources	Lack of resources to complete the audit plan	3	6	Employee Development interviews Flexible working Homeworking Reallocate audit plan to free up capacity Audit manual Agency staff used when necessary Knowledge transfer Staffing reviewed and benchmarked with other Staffordshire authorities.	Employee Development interviews Flexible working Homeworking Reallocate audit plan to free up capacity Audit manual Agency staff used when necessary Knowledge transfer Staffing reviewed and benchmarked with other Staffordshire authorities.	6
Failure to fully identify all relevant controls	Failure to fully identify all relevant controls	3	6	Access to web sites for information Audit manual CIPFA matrices Information sharing with other authorities	Access to web sites for information Audit manual CIPFA matrices Information sharing with other authorities	6
Failure to meet requirements of External Auditors	Grant Thornton taken over from AC as External Auditors wef Nov 12. Requirements of IA essentially remains the same however GT in process of compiling portfolio of IA work and outstanding audit recommendations from the AC.	3	3	Audit Plan document Improve relationships and have regular meetings between External Audit and Audit Manager Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues Statutory Officers Group	Audit Plan document Improve relationships and have regular meetings between External Audit and Audit Manager Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues Statutory Officers Group - group meets bimonthly and comprises of CEO, Monitoring Officer and S151 Officer	6
Major investigation taking priority over audit plan	Major investigation taking priority over 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	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

Risk	Risk Description	Impact	Risk Rating	Existing Control Measure	Treatment Description	Final Risk Rating
Failure to provide efficient staff capacity to deal with unplanned investigations	Failure to provide efficient staff capacity to deal with unplanned investigations	3	9	<p>New Staffordshire Chief Auditors Group Terms of Reference</p> <p>Corporate Governance issues reinforced through the Corporate Governance Working Group and associated processes</p> <p>Officers trained in investigation procedures</p> <p>Outside investigators employed as and when</p> <p>Reallocate audit plan to free up capacity</p> <p>Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues</p> <p>Investigating procedures training undertaken</p>	<p>New Staffordshire Chief Auditors Group Terms of Reference (updated to reflect shared services and potential interaction between authorities).</p> <p>Corporate Governance issues reinforced through the Corporate Governance Working Group and associated processes</p> <p>Officers trained in investigation procedures</p> <p>Outside investigators employed as and when</p> <p>Reallocate audit plan to free up capacity</p> <p>Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues</p> <p>Investigating procedures training undertaken</p>	3
Long-term sickness	Long-term sickness	3	6	<p>Homeworking</p> <p>Knowledge transfer</p> <p>Agency staff used when necessary</p> <p>Employee Development interviews</p> <p>Absence management policy</p>	<p>Homeworking</p> <p>Knowledge transfer</p> <p>Agency staff used when necessary</p> <p>Employee Development interviews</p> <p>Absence management policy</p>	3
Failure of External Audit providers to inform of changing policies and procedures	Failure of External Audit providers to inform of changing policies and procedures when satisfactory time scales to plan for alternations to service delivery are unachievable	3	9	<p>Continuing consultation and dialogue with External audit</p> <p>Improve relationships and have regular meetings between External Audit and Audit Manager</p> <p>Communication process in place</p> <p>Audit Plan document</p>	<p>Continuing consultation and dialogue with External Audit</p> <p>Improve relationships and have regular meetings between External Audit and Audit Manager</p> <p>Communication process in place</p> <p>Audit Plan document</p>	3

Risk	Risk Description	Impact	Risk Rating	Existing Control Measure	Treatment Description	Final Risk Rating
Failure to Comply with the Public Sector Internal Audit Standards (PSIAS)	Failure to Comply with the Public Sector Internal Audit Standards (PSIAS) is mandatory from 1st April, 2013.	3	3	Audit Plan document Anti-fraud and anti-corruption framework Audit manual CIPFA matrices Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	Audit Plan document Anti-fraud and anti-corruption framework and fraud response plan Audit manual CIPFA matrices Regularly report to Audit & Risk Committee, Chair and Director of Resources (Sec 151 Officer) on capacity issues	3
Low Risk recommendations not being implemented	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 February 2014	Communication process in place Reminders for information given by email and telephone Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014	4
Medium Risk recommendations not being implemented	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 February 2014	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 February 2014	4
Implementation of New Audit Management Software - PENTANNA	Failure to implement new software before old server storing existing software is decommissioned.	2	2	Use of Microsoft Office Products	If APACE fails then its likely that alternative ICT systems will be needed i.e. Microsoft Office Products.	2
Failure of APACE	Possible failure of the audit management and planning system that provides the information for the audit plan, time recording, recommendations and performance information.	2	5	Use of Microsoft Office Products	If APACE fails then its likely that alternative ICT systems will be needed i.e. Microsoft Office Products.	1

MEETING BEING SUBMITTED TO Audit and Risk Committee

1. **HEADING** Internal Audit Charter 2016/17
- Submitted by:** Audit Manager
- Portfolio:** Finance, IT and Customer
- Ward(s) affected:** All

Purpose of the Report

To report to Members for information and approval the Internal Audit Charter.

Recommendations

- a) That the Internal Audit Charter for 2016/17 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 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. It therefore contributes to the 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 Service 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 Charter 2014/15 – February 2014

13. **List of Appendices**

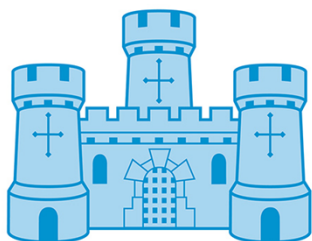
Appendix A – Internal Audit Charter

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14. **Background Papers**

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

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

INTERNAL AUDIT CHARTER

2016/17

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 2015 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 2015. 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.

Last Updated January 2016

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HEADING

QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 OCTOBER TO 31 DECEMBER 2015

Submitted by: Audit Manager

Portfolio Finance IT and Customer

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

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 controls.

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

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Summary of Outstanding Audit Recommendations and Levels of Assurance – Quarter 3 (2015-16)

	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	23	29	29	51	47	51	38	37	25	62	47	47
Number of Recommendations Outstanding as at the end of the month	2	2	10	9	13	9	5	4	1	5	0	6
% Implemented as at the end of the month	82	83	50	76	66	76	83	87	94	89	100	81
% Overdue for implementation as at the end of the month	18	17	50	24	34	24	17	13	6	11	0	19
No of recommendations with target date changed > 2	0	0	0	0	0	2	0	0	0	0	0	0
High Risk recommendations with target date changed > 2	0	0	0	0	0	0	0	0	0	0	0	0
Medium Risk recommendations with target date changed > 2	0	0	0	0	0	2	0	0	0	0	0	0

	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov	Dec
Low Risk recommendations with target date changed > 2	0	0	0	0	0	0	0	0	0	0	0	0
Overall Assurance Level	Sub	Sub	Ltd	Sub	Ltd	Sub	Sub	Sub	Full	Sub	Full	Sub
Annual Audit Days for Directorate*	50			168			115			77		
Total number of audit reviews for the Directorate*	5			24			13			7		

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 2015-16.

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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NEWCASTLE-UNDER-LYME BOROUGH COUNCIL
REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO
AUDIT & RISK COMMITTEE

Date 15 February 2016

HEADING **INTERNAL AUDIT PROGRESS REPORT – Quarter 3 2015/16**

Submitted by: Audit Manager

Portfolio Finance IT and Customer

Ward(s) affected All

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1st October to 31st December 2015. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

Recommendations

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

Reasons

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

1 Background

1.1 The previously approved Internal Audit Plan for 2015/16 allowed for 500 days of audit work. It has however been necessary to review and revise the plan which now equates to 452 days, the reasons for this are explained in 1.4 below.

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 second quarter, demonstrating progress against the plan
- Details of audit reviews completed and final reports issued
- Consultancy and non audit work, including corporate work

1.3 The delivery of an audit plan does not normally show 75% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 40% in the third quarter. Achievement of the 40% is dependent on a full complement of staff from 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

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quarter, and other factors such as special investigations. The audit plan is a guide to what may be achieved given optimum resources and no external influences; as such it is normal to revise the plan throughout the year to reflect unforeseen issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Audit Manager with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

- 1.4 Due to a number of factors that have affected the resources available to complete all the areas previously identified it has been necessary to review the audit plan. Given the resources available for the remainder of the financial year the plan has been reduced by 48 days, which equates to 7 audit reviews which will automatically be taken forward into the Audit Plan for 2016/17. The areas removed include Committee Services, Human Resources, Community Centres, Conservation Service, Court Costs and Ethical Governance. The revised total of days for the remainder of the 2015/16 Audit Plan therefore equates to 452 days. In reviewing the areas to be removed from this year's plan consideration was given to the level of risk and the last time that these areas were reviewed. The Audit Manager is satisfied that by removing these from the Audit Plan for 2015/16 and transferring these into 2016/17 this will not adversely affect the Annual Governance Statement in terms of the level of assurance.

2 Issues

2.1 Performance Indicators

The indicators reported below relate to the end of the third quarter (December 2015).

2.2 Number of Recommendations Implemented

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

Up to the end of December 2015, 281 recommendations had been made of which 259 have been implemented, 92%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 92% of all recommendations implemented to date this provides a good indication that managers are responding to and implementing the recommendations made. We would not anticipate this to be any higher at this stage in the year due to varying factors one being the fact some of the recommendations will not yet have reached their implementation date.

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

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2015/16 is 85%.

No surveys were issued during quarter 3, at present we are reviewing this process as part of the implementation of the new audit system which will enable us to automate the sending out of the surveys. The annual survey sent to all Heads of Service and

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Business Managers will still be sent in March which will then be used to provide an overall score for the financial year

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 50%. This figure is lower than target due to the fact that we are in the process of implementing a new audit system which is having an impact on both the audit plan and audit resources and also due to one member of the audit team currently on secondment to the Finance Team to cover a period of maternity leave. However the staff savings that have arisen as a result of the secondment have enabled 73 audit days to be brought in, these have been covered through the use of an agency worker. This will help to ensure the delivery of the audit plan for 2015/16.

- **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%. 43% 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 2015

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

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

2.5 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on

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the audit reviews completed since the 1st July 2015. Appendix A provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Chief Executives		
Locality Commissioning	Adequately Controlled	B
Grants	Adequately Controlled	B
Resources and Support		
Sundry Debtors	Adequately Controlled	A
Medium Term Financial Strategy	Well Controlled	B
Regeneration and Development		
Dog Warden Service	Well Controlled	B
Economic Development & Promotion	Well Controlled	B
Civil Parking Enforcement	Adequately Controlled	B
Corporate Reviews		
Enforcement	Well Controlled	B
Performance Management	Well Controlled	A

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

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

2.6 Consultancy and non audit projects

During quarter 3 the Audit Manager has been involved in various projects which have resulted in a total of 16 audit days being spent undertaking special projects at the request of other Directorates.

2.7 Corporate Fraud

During quarter 3 there have been 20 cases investigated in relation to non-benefit fraud which have included Single Person Discount Fraud (SPD) and Council Tax Reduction Fraud, Blue Badge and undeclared residences. Work continues with Stoke on Trent City Council in relation to the North West Staffordshire Corporate Fraud Hub which will see joint working across both the City Council and also Staffordshire County Council and a number of Registered Social Landlords, one of which being Aspire Housing.

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 2015 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

8 Equality Impact Assessment

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

9 Financial and Resource Implications

- 9.1 The implementation of recommendations will ensure that the areas reviewed will provide value for money in relation to their objectives and that operations are provided safely and risks managed. This in turn will reduce the risk of financial losses.
- 9.2 The service is currently on target to be provided within budget.

10 Major Risks

- 10.1 If key controls are not in place, managers are exposing their systems, processes and activities to the potential abuse from fraud and corruption.
- 10.2 If key controls are not in place, assurance cannot be given that the Services being delivered provide Value for Money for the Council.

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

11 Key Decision Information

11.1 Not applicable

12 Earlier Cabinet/Committee Resolutions

12.1 Agreement of the Internal Audit Plan for 2015/16 (Audit and Risk Committee 16 February 2015).

13 Recommendations

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

14 List of Appendices

14.1 Internal Audit Plan 2015/16: Progress to the end of Quarter 3 – 2015/16.

15 Background Papers

15.1 Internal Audit Plan & PI’s Folder
 15.2 APACE files 2015/16

16. Management Sign-Off

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

	Signed	Dated
Financial Implications Discussed and Agreed		
Risk Implications Discussed and Agreed		
Legal Implications Discussed and Agreed		
H.R. Implications Discussed and Agreed		

ICT Implications Discussed and Agreed		
Report Agreed by: Executive Director/ Head of Service		

Internal Audit Plan 2015/16**Progress to the end of Quarter 3 – 2015/16****Chief Executives Directorate****Areas completed in Quarter 3 of the 2015/16 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	
Locality Commissioning	A	Adequately Controlled	0	2	4	6
Grants	B	Adequately Controlled	0	3	2	5

Locality Commissioning the main objectives of this review were to ensure that;

- the roles and responsibilities of partners are clearly defined and have been agreed and approved.
- clear information on commissioning opportunities is openly available and that multiple routes to engage individuals and community organisations are in place.
- commissioning processes are transparent, proportionate and coherent.
- signed contracts are in place and that contractual obligations in terms of reporting, monitoring and invoicing are undertaken as agreed.
- a disputes/complaints procedure is in place and being adequately managed
- risks in relation to Locality Commissioning have been assessed and recorded and are being monitored in line with the Council's risk management policy.
- budgets are adequately monitored and any variances explained and managed.

Overall the findings from this review concluded an overall audit opinion of **adequately controlled**. This audit opinion means that there are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. A number of recommendations were made with a view to helping management to further improve/enhance the current procedures that were in place, these can be summarised as follows;

- The appraisal process for applications received should be reviewed, streamlined and amended where necessary to ensure that the process is proportional to the value of the contract
- The disputes/complaints procedure should be reviewed to ensure that it is only instigated where specific criteria are met and grounds for appeal are considered legitimate by the panel following a feedback meeting. The prospectus should incorporate the statement that 'the decision of the panel is final' to deter sporadic / unwarranted appeals.
- Performance monitoring of service providers should be delegated solely to nominated responsible officers, thereby reducing the resources currently contributed by Officers of the Business Improvement & Partnerships section.
- Performance reporting should be adapted for each contract, which is proportionate to both the value of the contract and type of service being provided.

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- Commissioning application forms should be reviewed prior to publication / issue on a case by case basis to ensure that only relevant sections of the form are completed with regard to the value/type of service being advertised.
- Quarterly payments in respect of service provision should be made at the earliest opportunity following quarter ends upon receipt of adequate performance data.

Grants - the main objectives of this review were to ensure that;

- Grants policy / procedures are in place and up to date;
- Grant administration infrastructure is in place;
- Grant application criterion is documented and appropriate application forms are available.
- Review the application and decision process for the 4 grants.
- Grant payments are entered onto the GL and reconciled on a regular basis.
- There is robust monitoring process in place to ensure that grants have been used as per application.

Overall the findings from this review concluded an overall audit opinion of **adequately controlled**. This audit opinion means that there are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. A number of recommendations were made with a view to helping management to further improve/enhance the current procedures that were in place, these can be summarised as follows;

- a strategy / policy on grants and concessions, should be put in place.
- the grant administration system is fragmented and as such should be improved/streamlined.
- consideration should be given to extending the use of formal agreements for all grant schemes
- As the information required from the applicant is basically the same for the four grants it would be considered as good practice to have a standard application form.
- Reconciliations should be made between the grant amounts approved and entered in the Grant Assessment Panel's minutes and those entered on to Civica.

Resources and Support Services Directorate

Areas completed in Quarter 3 of the 2015/16 Audit Plan

The following areas have been completed in quarter3

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Sundry Debtors (Key Controls)	A	Adequately controlled	0	3	2	5
Medium Term Financial Strategy	B	Well controlled	0	0	0	0

Sundry Debtors the main objectives of this review were to ensure that;

- the responsibility for raising sundry debtor accounts has been clearly defined and that accounts are only used where appropriate. Sundry debtor accounts are raised in accordance with the Authority's policies.

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- there are records to support all funds received, and that the organisations financial records are updated to reflect all payments made.
- there is a laid down policy for the treatment of bad and outstanding debts, and that debt collection is monitored.
- write offs are performed in accordance with the Authority’s policies and that all accounts are correctly updated to reflect all write offs.
- appropriate and effective use is made of computer technology regarding the administration of the sundry debtors function.

Overall the findings from this review concluded an overall audit opinion of **adequately controlled**. This means that controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (VFM). No recommendations were made in respect of this review.

- The main day to day procedures within the Debtors section should be documented to ensure the uninterrupted operation of the service should key members of staff become unavailable – recommendation outstanding from previous audit
- The anomaly whereby aged debts are showing on the system where no aged debt is outstanding should be addressed and measures put in place to correct this at the earliest opportunity.
- The 3 identified former employees of the Council should be removed as users from the Debtors system
- An annual reminder should be issued to all departments at the beginning of each financial year stating the requirement for the payment of bills, below the stipulated value, to be paid in advance rather than by invoice – recommendation outstanding from previous audit

Medium Term Financial Strategy - the main objectives of this review were to ensure that;

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

Overall the findings from this review concluded an overall audit opinion of **well controlled**. This means that controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (VFM). There were no recommendations arising from this review.

Regeneration & Development Services

Areas completed in Quarter 3 of the 2015/16 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	
Dog Wardens	B	Well Controlled	0	0	0	0
Economic Development & Promotion	B	Well Controlled	0	0	1	1
Civil Parking	B	Adequately	0	2	0	2

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Enforcement		Controlled				
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Dog Wardens the main objectives of this review were to ensure that;

- safe and secure procedures are in place.
- income and expenditure are controlled.
- compliance with policies and procedures and an efficient system is in place for managing and undertaking works.
- appropriate insurance cover exists.
- relevant performance review and reporting is in place.

Overall the findings from this review concluded an overall audit opinion of **well controlled**. This means that controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (VFM). There were no recommendations made as part of this review.

Economic Development and Promotion; the main objectives of this review were to ensure that;

- The Council has in place an Economic Development Strategy;
- There is a relevant action plan based on the Economic Development Strategy;
- Stakeholder arrangements are in place in connection with the Economic Development Plan;
- Economic development for the area is promoted.
- Staff have been appointed to Economic Development duties.
- Performance is monitored.

Overall the findings from this review concluded an overall audit opinion of **well controlled**. This means that controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (VFM). There was just one recommendation made following review this was in relation to the recording and taking minutes of meetings in relation to the Newcastle Employment and Skills Group.

Civil Parking Enforcement; the main objectives of this review were to ensure that;

- The Civil Parking Enforcement process is documented comprehensively and is compliant with relevant legislation.
- A comprehensive, signed agreement is in place with Stoke Council and other relevant parties.
- Trained staff operate in designated areas.
- Risk assessments have been completed in respect of the function and forwarded to the Health and Safety Officer.
- Income is monitored, reconciled and future trends analysed.

Overall the findings from this review concluded an overall audit opinion of **adequately controlled**. This audit opinion means that there are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. A number of recommendations were made with a view to helping management to further improve/enhance the current procedures that were in place, these can be summarised as follows;

- a Service Level Agreement should be made with Stoke-on-Trent City Council in relation to the parking processing arrangements.
- further training for the 4 Civil Enforcement Officers should be arranged thus helping them in performing a difficult and potentially confrontational job.

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 2015/16 Audit Plan

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Enforcement	B	Well controlled	0	2	0	2
Performance Management	A	Well Controlled	0	0	0	0

Enforcement, the main objectives of this review were to ensure that;

- a Corporate Enforcement Strategy has been implemented by the Council.
- the Council liaises with external partners on enforcement matters.
- the Council has systems in place for identifying enforcement issues.
- the Council has sufficiently skilled and trained enforcement officers to fulfil its obligations.
- a mechanism has been put in place for prioritising enforcement matters and that this mechanism is adhered to.
- all possible enforcement outcomes are explored and are appropriate
- monitoring takes place until the conclusion of each enforcement action.

Overall the findings from this review concluded an overall audit opinion of **well controlled**. This means that controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (VFM). There were just two recommendations made as part of this review these are summarised below;

- Enforcement authorisations should be put in place for all Officers of the Planning service tasked with undertaking enforcement duties. This should be undertaken in line with the Council’s scheme of delegation. Approvals should be reviewed at least annually and signed off by the Executive Director of Regeneration and Development.
- A central record of all Officers of the Council with enforcement responsibilities should be maintained. This should detail enforcement authorisations for each individual Officer, whereby approval is granted via an ‘instrument of appointment’ approval form and be reviewed at least annually. Information should be forwarded to Legal Services annually to be maintained centrally.

Performance Management; the main objectives of this review were to ensure that;

- all performance indicators have been received within the specified time limit,
- variances in the analytical review are in line with expectations given our knowledge of the Authority and this performance indicator,
- the performance indicator is calculated and recorded correctly,
- the correct definition has been used in the calculation of the performance indicator,
- the performance indicator is derived from a system and formal records of the Authority,
- the performance indicator is easily identifiable/is numbered, and a definition is in place,

Classification: NULBC **UNCLASSIFIED**

- there is evidence that the indicator submitted has been checked for accuracy/reasonableness by the Policy and Performance team,
- all working papers are attached to the Performance Indicator return., where they are missing, they have been chased by the Policy and Performance team
- the Performance Indicator return has been signed and dated where indicated,
- the systems and processes have been adequately described on the Performance Indicator return, and this has been checked by the Policy and Performance Team,
- all guidance boxes have been completed by the relevant service area, and this has been checked by the Policy and Performance Team,
- any amendments to Performance Indicators are accepted only within a prescribed deadline, and are documented in full,
- where problems/queries exist relating to current indicators, there is assurance that a plan is in place to resolve the queries for the following year,

On the whole it was found that controls were operating well and no major issues identified.

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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