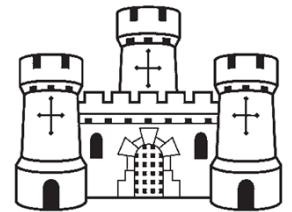


Public Document Pack

Date of meeting Monday, 13th February, 2017
Time 7.00 pm
Venue Training Room 1 - Civic Offices, Merrial Street, Newcastle-under-Lyme, Staffordshire, ST5 2AG
Contact Geoff Durham



**NEWCASTLE
UNDER LYME**
BOROUGH COUNCIL

Civic Offices
Merrial Street
Newcastle-under-Lyme
Staffordshire
ST5 2AG

Audit and Risk Committee

AGENDA

PART 1 – OPEN AGENDA

- 1 Apologies
- 2 **MINUTES OF PREVIOUS MEETINGS** (Pages 3 - 6)
To consider the minutes of the previous meeting(s).
- 3 **DECLARATIONS OF INTEREST**
To receive Declarations of Interest from Members on items included in the agenda
- 4 **Corporate Risk Management Report for the period October - December, 2016 (Quarter 3)** (Pages 7 - 14)
- 5 **Internal Audit Plan 2017/18** (Pages 15 - 30)
- 6 **Internal Audit Charter 2017/18** (Pages 31 - 48)
- 7 **Internal Audit Progress Report** (Pages 49 - 56)
- 8 **Appointment of External Auditor** (Pages 57 - 62)
- 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), Pickup (Chair), Waring, Cooper, Stubbs, White and Snell

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, 14th November, 2016
Time of Commencement: 7.00 pm

Present:-	Councillor Ms Sarah Pickup – in the Chair
Councillors	Dymond, Sweeney, Waring, Stubbs and Snell
Co-Opted Member	Phil Butters(Keele University)
Officers	Executive Director (Resources and Support Services) - Kelvin Turner, Claire Dodd (Items 1-5 only), Liz Dodd, Geoff Durham and Annette Vacquier (Items 1-5 only).

1. APOLOGIES

Apologies were received from Councillors' Cooper and White.

2. MINUTES OF PREVIOUS MEETINGS

Resolved: That the minutes of the meeting held on 26 September, 2016 be agreed as a correct record.

3. DECLARATIONS OF INTEREST

There were no declarations of interest stated.

4. HEALTH AND SAFETY SIX MONTH REPORT.

Consideration was given to a report regarding health and safety at the Council and the Health and Safety six month report for the period April to September, 2016.

A query was raised regarding the number of accidents which was shown at thirty over a six month period against a total of thirty six for the whole of last year. Members asked if this was down to anything in particular?

The Council's Corporate Health and Safety Officer, Claire Dodd suggested that it was most likely due to the fact that more people were becoming aware of the need to report an accident.

Resolved: That the report be noted.

5. CORPORATE RISK MANAGEMENT REPORT -JULY - SEPTEMBER, 2016

Consideration was given to the Corporate Risk Management Report for Quarter two.

Councillor Stubbs stated that he was not happy with the wording used in number 2 on Page 18 of the agenda which read '...unreasonable planning decisions', and requested that the word 'unreasonable' be changed. The Council's Risk and Insurance Officer agreed to raise this matter with the Relevant officers.

- Resolved:**
- (i) That the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers, where applicable, be noted.
 - (ii) That the number of overdue risks be noted.
 - (iii) That the two risk level increases be noted.
 - (iv) That the point stating that no new risks had been identified, be noted.

6. TREASURY MANAGEMENT HALF-YEARLY REPORT 2016/17

Consideration was given to a report regarding the Treasury Management Half Yearly report for 2016-17.

Members were advised that the Treasury Management Advisor Contract was up for renewal and tenders were expected to be received by the end of November, 2016. The new contract would commence next year.

- Resolved:** That the Treasury Management Half-Yearly report for 2016-17 be received.

7. ANNUAL AUDIT LETTER

Consideration was given to the Annual Audit Letter that had been received from Grant Thornton.

Members' attention was brought to the Executive summary on page 31 of the agenda.

- Resolved:** That the Annual Audit Letter be received.

8. INTERNAL AUDIT PROGRESS REPORT

The Council's Head of Audit and Elections gave a verbal update on the Internal Audit Progress Report.

Members were handed information on the current position.

Members were advised that a number of areas had been identified for possible agency support to assist the Council's Audit team. In addition, new software had almost been installed which meant that the system could soon be used.

The circulated list contained colour coded items. Those in red had been risk assessed but there would be no problems if they were not completed this year. Members were advised that the yellow items needed to be done first and it was

hopeful that half of these items on the list would be completed this year and any remaining would be prioritised next year.

Resolved: That the information be received.

9. **URGENT BUSINESS**

There was no Urgent Business.

COUNCILLOR MS SARAH PICKUP
Chair

Meeting concluded at 7.30 pm

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

13 February 2017

**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD October -
December 2016 (Quarter 3)**

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 - December 2016 (Q3), 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 the number of overdue risks.**
- (c) Note the point 2.2.1 advising of no risk level increases.**
- (d) Note the point 2.2.2 regarding no new risks identified between October to December 2016.**
- (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 (Q2 2016) was reported to the Council's Audit & Risk Committee in November 2016.
- 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 running the report, there were 16 overdue reviews. These risks are from 4 different profiles: Business Impact Assessment Communications; Communications Strategy 2015-2018, and Media and Communications.
 - 2.1.2 The main reason for this is that the risk champion for these areas has been involved, and is still involved, in another area of work which is their main priority.
- 2.2 Following a previous meeting a brief point is now produced to show any risks where the risk level has increased to a Medium 7, 8 or High 9.
 - 2.2.1 Your officer can report that there have been no risk level increases.
 - 2.2.2 There have been no new risks added to any profiles during October to December 2016.
 - 2.2.3 Should there be any increase during January to March 2017 these will be reported to the next meeting of the Committee.

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

- 3.1 The Council regularly reviews and refreshes its risk registers in accordance with the Risk Management Strategy.
- 3.2 These reviews are co-ordinated by the Strategic Risk Champion who works closely with Directors, Operational Risk Champions and Risk Owners.

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

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

3.4 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

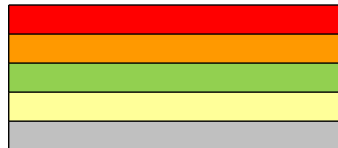
8.1 None where actions are to be taken in order to mitigate the risks as these will be met from within existing budgets. Where this is not possible, further reports will be submitted to Members.

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/Increased rating risks

Appendix A									
Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating	
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 31/01/2017	as at June 16	as at Sept 16	as at Dec 16	
1	Potential Claims growth	Chief Executive	The Council has robust systems in place both to deal with claims when they happen and also to prevent, where possible, the circumstances where claims could arise. In doing so, the Council has in place policies and procedures designed to enhance safety at work and also to advise staff and others when driving or operating machinery. The Council checks, on a regular basis, that it is up to date on best practice in this area and that systems reflect changes in the local, national or international environments		Strategic	Risks reviewed and noted that this area is of growing significance with the number and value of claims increasing. Further actions reviewed. Consideration was given to potential control measures, but these are addressed by the existing further actions.	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9

Appendix A	Risks and Action Plan	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
Risk Identified			in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 31/01/2017	as at June 16	as at Sept 16	as at Dec 16
2	Financial consequences of adverse planning decisions	Regeneration and Development	Housing Clarification Statement preparation to assist members and officers in dealing with housing development proposals in advance of the Local Plan being adopted	Feb-17	Strategic	<p>Completion of this action has been delayed because of the priority given to undertaking key aspects of the Local Plan. Report to go to Planning Committee February 2017.</p> <p>Member decisions at Planning Committee 24 May 2016 included 4 which were contrary to officer advice, at least one of which has been escalated to appeal resulting in costs being incurred to present the Council's case (about £20K) and a risk of further costs being awarded against the Council if the Inspector considers that the Council has behaved unreasonably (the appellant has submitted a case for a partial award of costs). Total costs could be circa £75k.</p>	I = 3 L = 2 Medium 6	I = 3 L = 3 High 9	I = 3 L = 3 High 9
3	Other work priorities taking over completion of the audit plan	Audit			Operational	Due to a number of commitments including the implementation of a new audit system, recommendation follow-ups, issues within the licensing section and a change in manager and staff responsibilities, the delivery of the audit plan has been delayed, however the service should revert to normal with adjustments being made to deliver the current plan for 2016/17	I = 3 L = 2 Medium 6	I = 3 L = 3 High 9	I = 2 L = 2 Medium 5

Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating	
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 31/01/2017	as at June 16	as at Sept 16	as at Dec 16	
4	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	
5	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

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MEETING BEING SUBMITTED TO Audit and Risk Committee

1. **HEADING** Internal Audit Plan 2017/18
- Submitted by:** Head of Audit & Elections
- Portfolio:** Finance IT and Customer
- Ward(s) affected:** All

Purpose of the Report

To inform Members of the proposed Internal Audit Plan for 2017/18 and to seek their approval as to its contents.

To agree with members the reporting arrangements for performance against the 2017/18 proposed plan.

Recommendations

A That the Internal Audit Plan for 2017/18 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 Public Sector Internal Audit Standards.

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 the Councils Monitoring Officer and has more recently taken on the responsibility for Elections and Electoral Registration, and now is the Head of Audit and Elections. Careful consideration was given to this to ensure that this role will not undermine and compromise the independence role of the audit. As set out in the Audit Charter any audit work undertaken in relation to electoral services or directly related to the Monitoring Officer will be reported to the Section 151 Officer and not the Head of Audit and Elections.

2.0 **Issues**

Internal Audit Plan for 2017/18

- 2.1 The Internal Audit Plan is calculated in terms of audit days, 435 for 2017/18, 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. The risk model has recently been reviewed due to the implementation of the new audit management system, Pentana. Appendix B shows an example of the risk assessment factors that are taken into consideration when reviewing an audit area. These factors are weighted according to the potential impact on the individual audit area. For

example areas where income and expenditure are high will score more points than those with lower income and expenditure. When the weightings have been applied to each audit area a score is calculated which results in audits been classified as an A, B or C risk. An A Risk has a weighted score over 750 and is required to be audited annually, a B Risk has a weighted score between 500 and 749 and will be audited once every 2 or 3 years and a C Risk has weighted score between 250 and 499 and will be audited once every 3 to 5 years. Priority will always be given to those audit areas with an A risk. Audits classified as a B or C risk will be reviewed subject to the resources available.

- 2.3 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.
- 2.4 The risk model in the new audit system is still very much work in progress and in producing the audit plan for 2017/18 this has been based on the planning model which has been developed to date within the system and a combination of those audit reviews that have been carried forward from 2016/17 when the plan was revised to take into consideration a reduction in audit resource.
- 2.5 In addition for 2017/18 the plan has clearly identified other areas of work in terms of Computer Audit, Information Assurance, and Corporate Fraud. Previously elements of these areas were included in the plan, but these were shown as either a corporate review or included within a specific Directorate.
- 2.6 There have also been a number of new areas identified for review during 2017/18; these include the recently proposed Newcastle under Lyme Lottery 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.
- 2.7 As mentioned in 2.2 above work has continued with the development of the new audit management system, Pentana. Implementation of this system has been slower than 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. During the last few weeks there has been significant development with the system and it is anticipated that we should be able to go live with the new system sometime during March 2017 so that the system will be operational for the new financial year. The new system will provide the automation of recommendation tracking and performance reporting for both management and this committee.
- 2.8 In 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 2017/18 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 2017/18 is currently going through the procurement process, and an update will be provided to the committee in due course.

4.0 Proposal

4.1 In agreeing the proposed Audit Plan for 2017/18 members are agreeing to a review of all audit areas listed, following a risk assessment based on the information available for review during 2017/18 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 for money.

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 4.2 posts, which include the Head of Audit and Elections, 2 Audit Technicians, 1 Corporate Fraud Officer and 0.2 FTE Information Assurance Officer. In addition 30 days are brought in from specialist external computer auditors,

9.2 The Audit Plan for 2017/18 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 the 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 External 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 2017/18

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 2017-18-(Electronic file)

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Internal Audit Plan
2017/18

Audit Areas	Risk*	Revised Plan
Chief Executives		
Safeguarding	A	15
Risk Management	B	10
Newcastle under Lyme Lottery	B	10
Member Services	B	5
Chief Executive Total Days		40
Resources & Support Services		
Asset Management Capital	A	5
Council Tax	A	5
Payroll	A	5
Treasury Management	A	5
Housing Benefits	A	10
Creditors	A	15
Civica - General Ledger	A	10
Income Collection	A	10
National Non Domestic Rates	A	10
Sundry Debtors	A	10
Human Resources	B	10
Resources and Support Services Total Days		95
Operational Services		
Refuse Service	B	25
Landscaping	B	10
Bereavement Services	B	15
Current & Final Accounts	A	10
Operational Services Total Days		60
Regeneration & Development Services		
Licensing	A	25
Asset Disposals	A	5
Food Safety	B	10
Housing Strategy	B	10
Current & Final Accounts	A	10
Regeneration and Development Services Total Days		60
Corporate Functions		

Classification: NULBC **UNCLASSIFIED**

Gifts Hospitality & Private work/interests	A	5
Transparency Agenda	B	5
Corporate Governance	A	10
Freedom of Information	B	5
Procurement	A	10
Ethical Governance	B	10
Mileage Travel & subsistence	B	10
Corporate Functions Total Days		55
Corporate Fraud		
National Fraud Initiative	A	15
Data Matching	A	10
Fraud Hub	A	30
Corporate Fraud Total Days		55
Information Assurance		
A total of 40 days allocated to ensure compliance with Information Security Policies, providing advice on day to day information security matters and support to various projects on-going such as Electronic Data Management and off site document storage	B	40
Information Assurance Total Days		40
Computer Audit Contract		
Disaster Recovery	B	6
Network Security	B	6
Remote Access	B	6
Application Review : Uniform Planning System	B	6
Application Review : Gladstone Leisure System	B	6
Computer Audit Days		30
Total Days for 2017/18		435

* Risk

A Risk – weighted score over 750 required to be audited annually

B Risk – weighted score between 500 and 749 – audited once every 2 or 3 years

C Risk – weighted score between 250 and 499 – audited once every 3 to 5 years.

Priority given to A risks then subject to resource availability as to what B and C risk audits are completed.

UPDATE FORM FOR AUDIT RISK ASSESSMENTS

The following risk assessment should 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	
1	INTERNAL CONTROL QUALITY (25%) – factors to be considered as detailed below	
	Segregation of duties	
	Total control over staff activities (e.g. in house development in a sizeable, well established control environment, internal contractor, Mixed internal / external partnership situation, Some controls effective – managed service, external staff internal equipment, Almost no control, fully externalised	
	Documentation	
	Fully documented and up to date, Partial documentation but not necessarily up to date, Poor/ absent documentation	
	Quality / reliability	
	Controls match risks – no problems encountered, Minor controls – ineffective, Controls ineffective – no problems in the past, Controls ineffective – major problems in the past	
2	CRITICALITY / MONETARY FACTORS (30%) – factors to be considered are detailed below	
	Criticality	
	Insignificant impact on operational / strategic plan, Partial impact on operational / strategic plan, Significant impact on operational / strategic plan	
	Expenditure	
	£0	
	£1-50,000	
	£50,000 – 250,000	
	£250,000 – 1,000,000	
	£1,000,000 – 5,000,000	
	£5,000,000+	
	Income	
	£0	
	£1-50,000	
	£50,000 – 250,000	
	£250,000 – 1,000,000	
	£1,000,000 – 5,000,000	
	Above £5,000,000	
	Stores	
	None, Below 1,000, Above 1,000	
	Transactions	
	0-1	
	1-1,000	

	1,000-10,000	
	10,000-100,000	
	100,000-200,000	
	Above 200,000	
3	ENVIRONMENTAL CHANGE (15%)– factors to be considered are detailed below	
	Personnel Structure	
	Static workforce, Low level / low number of changes, High turnover – staff / management	
	Systems	
	Static, Minor enhancements, New Systems	
	Growth	
	Static, Anticipated increase / decrease, Unexpected or very significant growth <i>A significant increase in growth is approximately 20%</i>	
	Incidence of local and national fraud	
	Minimal, Significant, High	
4	COMPLEXITY (10%) – factors to be considered are detailed below	
	Systems (computer or manual)	
	Simple manual or stand alone, Fully integrated / automated, Large number of separate systems	
	Technical (area under audit)	
	Capable of audit without specialist input or training, Some training or research required to undertake audit, Detailed specialist training / input required	
5	LEGAL AND REGULATORY CONSIDERATIONS (10%) – factors to be considered are detailed below	
	No recent new legislation and / or no specific problems monitored in the press release	
	One of high level regulatory requirements, grave consequences of non compliance, recent direct regulatory criticism, major new legislation	
	More than one of the above occurrences	
6	POLITICAL SENSITIVITY(10%) - factors to be considered are detailed below	
	Not politically sensitive, Some political pressure group interest, Considerable interest, client sensitivity and impact of failure on other systems	

AUDIT REPORT - As of 27.01.17*

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
Audit						
<i>Items in Group: 17</i>						
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

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

Risk	Risk Description	Impact	Risk Rating	Existing Control Measure	Treatment Description	Final Risk Rating
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
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

Risk	Risk Description	Impact	Risk Rating	Existing Control Measure	Treatment Description	Final Risk Rating
Other work priorities taking over completion of the audit plan	Other work priorities taking over completion of the 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	5
Failure of External Audit providers to inform of changing policies and procedures	Failure of External Audit providers to inform of changing policies and procedures when satisfactory time scales to plan for alternations to service delivery are unachievable	3	9	Continuing consultation and dialogue with External audit Improve relationships and have regular meetings between External Audit and Audit Manager Communication process in place Audit Plan document	Continuing consultation and dialogue with External Audit Improve relationships and have regular meetings between External Audit and Audit Manager Communication process in place Audit Plan document	3
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

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
Low Risk recommendations not being implemented	Low Risk recommendations not being implemented	1	4	<p>Communication process in place</p> <p>Reminders for information given by email and telephone</p> <p>Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014</p>	<p>Communication process in place</p> <p>Reminders for information given by email and telephone</p> <p>Revised Internal Audit Protocol document recirculated with Audit Plan in February 2014</p>	4

Risk	Risk Description	Impact	Risk Rating	Existing Control Measure	Treatment Description	Final Risk Rating
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 PENTANNA	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 PENTANNA 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 2017/18
- Submitted by:** Head of Audit & Elections
- 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 2017/18 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 Head of Audit & Elections 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 Audit & Elections and the Audit Committee and those to whom the Head of Audit & Elections 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 Audit & Elections 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 2016/17 – February 2016

13. **List of Appendices**

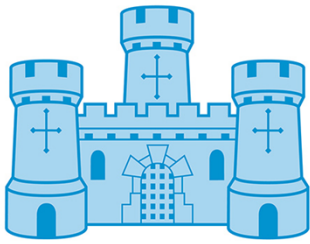
Appendix A – Internal Audit Charter

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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

2017/18

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 Head of Audit & Election's functional reporting relationship with the Audit & Risk 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 & Risk Committee.

2 **Purpose of Internal Audit**

Our mission is;

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”¹

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

“Internal auditing is an independent, objective assurance and consulting² 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.”³

- 2.2 Internal Audit is therefore an assurance function which primarily provides an independent and objective opinion to the Council on its governance and risk management arrangements, and internal controls. In addition it also provides assurance to external organisations and third parties such as Staffordshire County Council in relation to Pensions and Disabled Facilities Grants.
- 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.

¹ Mission statement as set out in the Public Sector Internal Audit Standards 2016

² Assurance services involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor

Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client.

³ Definition taken from “Public Sector Internal Audit Standards”

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;
- 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 Head of Audit & Elections 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 & Risk 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 Head of Audit and Elections 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 Head of Audit & Elections 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 Head of Audit & Elections. 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 2015 and the Public Sector Internal Audit Standards 2016 (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 Head of Audit & Elections 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. Any audit work undertaken on electoral services or directly related to the role of the Monitoring Officer will be reported directly to the S151 officer and not to the Head of Audit and Elections.

- 7.4 The Head of Audit & Elections will make the Audit & Risk 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 & Risk Committee; this is based on the level of risk to the Council and its operations.
- 7.7 The Head of Audit & Elections 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 & Risk Committee or External Auditor where it is deemed necessary.
- 7.8 The Head of Audit & Elections reports functionally to the Audit & Risk Committee in relation to the Internal Audit Plan, Annual Audit Report and periodic updates of Internal Audit work.
- 7.9 The Head of Audit & Elections is responsible for the content of all written reports produced by the section. The Head of Audit & Elections 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 Head of Audit and Elections 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 Head of Audit & Elections must be consulted before making the report available under FOI and where necessary elements of the report can be redacted.
- 9.4 The Head of Audit & Elections 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 Head of Audit and Elections 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 & Risk 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 Head of Audit and Elections will hold a relevant professional qualification (CMIIA⁴, CCAB⁵ or equivalent) and be suitably experienced.

⁴ CMIIA –Chartered Member of the Institute of Internal Auditors

⁵ CCAB- Consultative Committee of Accountancy Bodies which includes CIPFA, ACCA and the ICAEW

- 10.3 The Head of Audit & Elections 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.

11 Internal Audit Management

- 11.1 The Head of Audit & Elections 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 Head of Audit and Elections 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 & Risk 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 & Risk 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 & Risk 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:-

Criteria	Factors considered under this criteria
Internal Control Quality (25%)	Segregation of duties
	Documentation
	Quality/Reliability
Criticality/Monetary Factors (30%)	Criticality
	Expenditure £
	Income £
	Stores
	Transactions
Environmental Change (15%)	Personnel Structure
	Systems changes
	Growth
	Incidence of local/national fraud
Complexity (10%)	Systems –computer/manual
	Technicality
Legal and Regularity Considerations (10%)	
Political Sensitivity (10%)	

- 12.5 The resulting scores are banded into three risk categories
- High – A risks (scores over 750);
 - Medium- B risks (scores between 500 and 749); and
 - Low – C risks (scores between 250 and 499).
- 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 & Risk Committee for approval, usually in February each year.

13 Reporting Lines

- 13.1 The Head of Audit & Elections reports to the Executive Director Resources & Support Services for line management purposes. However, alternative reporting lines are available to the Head of Audit & Elections where these are deemed necessary as set out in section 7.7.
- 13.2 The Head of Audit & Elections will report functionally to the Audit & Risk 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 Head of Audit & Elections will present the annual audit plan to members of Executive Management Team, the s151 Officer and the Audit & Risk Committee. This plan will be approved by the Audit & Risk Committee.
- 13.4 An annual report will be presented to the Audit & Risk 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 Head of Audit & Elections 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 & Risk 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 Head of Audit & Elections will be responsible for reviewing the implementation of recommendations. At the Head of Audit & Elections 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 & Risk Committee as appropriate.
- 13.8 The Head of Audit & Elections 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 & Risk Committee as appropriate.

14 Quality Assurance and Improvement Programme

- 14.1 The Head of Audit & Elections 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 & Risk 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 Head of Audit & Elections 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 & Risk 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 Head of Audit & Elections will maintain a working relationship with the Chair and other members of the Audit & Risk Committee. Where necessary the Head of Audit & Elections will have direct access to the Chair of the Audit & Risk Committee.
- 15.2 Unless stated elsewhere, the Audit & Risk 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 Head of Audit & Elections 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 Head of Audit & Elections will review the Audit Charter annually and any revision will be presented to the Executive Management Team and Audit & Risk Committee for approval.

Last Updated January 2017

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NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date 13 February 2017

HEADING **INTERNAL AUDIT PROGRESS REPORT – Quarter 1 & 2 & 3 2016/17**

Submitted by: Head of Audit & Elections

Portfolio Finance IT and Customer

Ward(s) affected All

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1st April to 31st December 2016. 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 2016/17 allowed for 526 days of audit work. However as reported to the last committee it has been necessary to review and revise the plan which now equates to 358 days, the reasons for this are explained in 1.4 below.
- 1.2 This is the third report of the current financial year presented to the Committee and the areas that it will cover are as follows;
- Actual against planned performance for the first quarter, demonstrating progress against the plan
 - Details of audit reviews completed and final reports issued
 - Consultancy and non audit work, including corporate work
- 1.3 The delivery of an audit plan does not normally show 75% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 40% in the third quarter. Achievement of the 40% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 75% of the plan is not normally achieved due to slippage of the previous quarter, and other factors such as special investigations. The audit plan is a guide to what may be achieved given optimum resources and no external influences; as such

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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 During the current year there have been a number of factors that have affected and influenced the delivery of the audit plan, these include amongst other things work on the implementation of a new computer system, which has taken up considerably more time than originally anticipated partly due to the limited staff resources available to actually implement and develop the system. In addition one of the audit technicians has transferred to a Principal Accountant post in Finance, which alongside a number of other issues which have included issues in both the licensing and election functions have resulted in a number of audit days being lost to dealing with other matters. A copy of the revised plan was presented to the last meeting of the committee on the 14 November 2016.

2 **Issues**

2.1 **Audit reviews completed and final reports issued between 1 April and 31 December 2016**

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.

- 2.1 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since the 1st April 2016.

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Chief Executives						
Land Charges	B	Well Controlled	0	0	0	0
Car Loans	B	Adequately Controlled	0	1	0	1
Court Fees	B	Adequately Controlled	0	2	0	2
Committee Services	B	Adequately Controlled	0	2	0	2
Resources and Support						
Treasury Management	A	Well Controlled	0	0	0	0
Information @ Work	B	Adequately Controlled	0	5	3	8
Creditors	A	Well Controlled	0	0	0	0
Housing Benefits	A	Well Controlled	0	0	0	0
General Ledger – Main accounts	A	Well Controlled	0	0	1	1
NNDR	A	Well Controlled	0	0	0	0
Information Security	B	Adequately controlled	0	1	0	1
Code of conduct	B	Well Controlled	0	0	0	0
Cloud computing	B	Adequately Controlled	0	2	0	2
Post Opening	B	Adequately Controlled	0	1	0	1
Regeneration and Development						
Conservation Service	B	Well Controlled	0	0	0	0
Health & Safety	B	Adequately Controlled	0	4	1	5
Operational Services						
Operational Services Administration	B	Adequately Controlled	0	1	1	2
Park Attendants	A	Well controlled	0	0	0	0
Recycling Contract	A	No problems identified, contract delivered within budget	0	0	0	0
J2	B	Adequately controlled	0	7	2	9
Final Account – The	A	No problems	0	0	0	0

Whammy Phase 2		identified, contract delivered within budget				
Final Account – Sports Pavilion Silverdale Colliery	A	No problems identified, contract delivered within budget	0	0	0	0
Corporate Reviews						
Corporate Governance	A	No opinion given – work completed as part of the Annual Governance Statement	0	0	0	0
Gifts & Hospitality	A	Well Controlled	0	0	0	0

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. It should be noted that the risk assessments for the audit areas contained within the 2016/17 audit plan are based on those contained in the former Audit Management system, APACE.

'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.

2.2 Consultancy and non audit projects

During the current year the Audit Team have been involved in various projects which have fallen outside of the audit plan these have included the following;

- Disabled Facilities Grant Verification – this required sign off by the Audit Manager
- Election Payments – some issues identified due to various officers leaving the authority
- Electoral Returns- again issues that needed to be resolved due to various officers leaving the authority

In addition there have been a number of factors that have affected and influenced the delivery of the audit plan, which were referred to in Section 1.4 above.

2.3 Audits on going at start of Quarter 4

During the current quarter the following reviews are currently underway;

Community Centres

Environmental Protection
Payroll
Procurement
Risk Management
Asset Management - Capital

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 2016/17 (Audit and Risk Committee 15 February 2016).

13 Recommendations

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

14 Background Papers

15.1 Internal Audit Plan & PI's Folder

15.2 APACE files 2016/17

15. 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		

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Report to Audit and Risk Committee 13 February 2017

Appointment of External Auditor

Submitted by: Head of Finance

Portfolio: Finance IT and Customer

Wards Affected: All

Purpose

To enable the Audit and Risk Committee to recommend the arrangements for the appointment of external auditors for the Council, with effect from the accounts for the financial year 2018/19.

Recommendations

- a) **That Full Council is recommended to opt into the national scheme for auditor appointments (Public Sector Audit Appointments).**

Reason

The current arrangements for external audit will end following the audit of the 2017/18 accounts and will in future be governed by the Local Audit and Accountability Act 2014, which provides for a number of different processes for the appointment of the auditor.

1. Background

- 1.1 The council's current external auditors, Grant Thornton, were appointed by the Audit Commission. This was a transitional arrangement to enable continuity following the abolition of the Commission until formal arrangements were put in place by legislation.
- 1.2 The Local Audit and Accountability Act 2014 (the Act) now sets out the legal framework for the appointment of auditors and for Councils to monitor their work.
- 1.3 The current audit arrangements will end after the audit of the 2017/18 accounts. As a result, the Council will need to appoint an auditor for the 2018/19 accounts and after.
- 1.4 There are a number of appointment process options set out in the Act, which need to be considered and the most suitable selected.

2. Issues

- 2.1 The appointment of the auditor and the process to be used in making the appointment is a decision that must be taken by Full Council. However, the Audit and Risk Committee will clearly have a view with regard to the procedure for the appointment. This report is intended to enable the Committee to consider and recommend its preferred option for the appointment process to Full Council.
- 2.2 The scope of the audit will be specified nationally by the National Audit Office which is responsible for writing the National Code of Audit Practice, which all firms appointed to carry out local authority audits must adhere to. Not all accounting firms will be

eligible to compete for the work, they will need to demonstrate that they have the necessary skills and experience and be registered with a registered supervising body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not yet known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including the Council's current auditor. It is unlikely that small local firms will meet the eligibility criteria.

- 2.3 The Council has until December 2017 to make the appointment. In practical terms this means that one of the options outlined at paragraph 2.4 must be in place by early 2017 in order that the contract negotiation process can be carried out in time.
- 2.4 There are three options permitted by the Act for the process to be followed to appoint the auditor. These all involve the Council itself making the appointment and are:
- 1) The Council can carry out its own process and make a stand alone appointment;
 - 2) The Council can act jointly with other authorities to appoint an auditor for all of them;
 - 3) The appointment can be made using a national "Sector-Led Body".
- 2.5 The Act provides for local authorities to set up auditor panels. These will oversee the appointment of auditors and monitor the relationship with the auditor once appointed. This part of the Act takes effect once the Secretary of State has made regulations giving local authorities the power to set up panels. He has not yet done so. When the regulations have been made a report will be brought to the Committee outlining their functions and how they are to be set up. The appointment process must be carried out using an auditor panel in respect of options 1) and 2) above.
- 2.6 The Local Government Association (LGA) has set up a body entitled "Public Sector Auditor Appointments" (PSAA). This body has been approved by the Secretary of State as a "Sector-Led Body". Currently it is the only such approved body and is likely to remain so. All local authorities have been invited to opt into the PSAA scheme, with a final deadline for doing so of 9 March 2017. Authorities that choose not to opt-in by this deadline may opt in later but not until after 1 April 2018, which is too late to make an auditor appointment for the audit of the 2018/19 accounts. PSAA will draw up a specification for local authority audit and invite bids from firms for the work.
- 2.7 PSAA intends to carry out a procurement exercise and to let contracts for five years and will divide the country into two large contract areas nationally; each one divided into three or four contract lots per area, depending on how many authorities opt in. Within each area they intend to appoint a number of firms, which will help them to manage independence issues. Following completion of this process each opted-in authority will be allocated an auditor. Each opted-in authority will be asked about any conflicts of interest which might arise with regard to specific firms (for example as a result of consultancy work already carried out by the firm for the Council) and about any other local factors considered relevant. PSAA will endeavour to appoint the same auditors to opted-in bodies that are involved in formal collaboration or joint working initiatives, if those bodies consider that this will enhance efficiency or value for money.
- 2.8 PSAA will pool scheme costs (i.e. the costs of the contracts negotiated with the various firms plus PSAA's administrative costs) and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit

risk. Pooling will mean that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants - the greater the level of participation, the better the value represented by the fees. Fees will be determined by the prices achieved in the procurement process that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017 and at this point the overall cost and therefore the level of fees required will be clear. PSAA expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

2.9 PSAA state that they will:

- a) Only contract with approved firms that have a proven track record in undertaking public audit work
- b) Include obligations in relation to maintaining and continuously improving quality in their contract terms and in the quality criteria in their tender evaluation
- c) Ensure that firms maintain the appropriate registration and will liaise closely with the Recognised Supervisory Body and the Financial Reporting Council to ensure any quality concerns are detected at an early stage
- d) Take a close interest in our feedback and in the rigour and effectiveness of firms' own quality assurance arrangements

2.10 There are advantages and disadvantages associated with all three options. These are outlined below.

2.11 **Option 1** - Council carries out the process itself and appoints the auditor solely as its auditor.

Advantages:

- The process is entirely under the Council's control and members have direct input into the process

Disadvantages:

- The Council will not be able to take advantage of lower fees that may be available using Options 2 or 3.
- There will be administrative costs and probably considerable time spent in organising and attending panel meetings and carrying out the procurement process in-house.
- Panels will include independent appointees so the decision will not be taken solely by elected members
- The number of firms attracted to bid may be appreciably less than under the other options

2.12 **Option 2** - Council carries out a joint procurement process with other authorities

Advantages:

- Costs of the procurement process will be shared across a number of authorities
- More firms may be attracted to bid than under Option 1
- Consequently the fees payable may be less than under Option 1

Disadvantages:

- It is not known whether any other authorities would be interested in participating in a joint process with the Borough Council
- The fees payable, although possibly less than under Option 1 will most likely be higher than achievable under Option 3.
- There will still be administrative costs and probably considerable time spent in organising and attending panel meetings (there will still be a need for a joint panel) and carrying out the procurement process.
- Panels will include members from all participants and independent appointees so the decision will be further removed from local input.
- There will be the possibility of disagreement between the participating authorities.
- The choice of auditor could be complicated if individual authorities have independence issues.

2.13 **Option 3** - Council uses PSAA to make the appointment

Advantages:

- There will be no direct administrative costs incurred by the Council and virtually no time will be spent carrying out the procurement exercise. PSAA's costs will be shared over all of the opted-in authorities so provided there are sufficient the amount attributed to individual authorities will be insignificant.
- Fees are likely to be less than under either of the other options owing to the larger contract sizes attracting competitive rates
- Any conflicts involving individual authorities will be managed by PSAA who will have a number of contracted firms to call upon
- PSAA is a body set up by the LGA and should, therefore, be run in the interests of local government

Disadvantages:

- Borough Council Members will have little or no involvement in the process.

2.14 It is recommended that Option 3, to use PSAA to carry out the process, is adopted. This would appear to be the most cost effective way of making the appointment and would involve far less expenditure of administrative time. It is also believed, that there are likely to be worthwhile savings in terms of the audit fees payable because PSAA will be in a good position to secure competitive prices owing to the size of contracts offered. Because PSAA is an LGA body this also provides the necessary element of assurance that the Council's interests will be borne in mind and safeguarded. There are already a considerable number of authorities which have expressed an interest in participating in the PSAA scheme and it is likely that the majority of authorities will chose this option. The decision will need to be taken by Full Council on 22 February 2017 in order to meet the deadline for opting into the PSAA scheme.

3. Legal and Statutory Implications

3.1. The Council must have its accounts audited by an independent external auditor. The requirements and framework for appointing auditors are contained in the Local Audit and Accountability Act 2014.

4. Financial and Resource Implications

4.1. Although the fees payable under the PSAA arrangements are not yet known it is unlikely that they will be significantly higher than the present fees. If this procurement option is not pursued, the likely fees are harder to predict and any significant increase

would need to be included in the Medium Term Financial Strategy as a new pressure in 2019/20.

5. Major Risks

- 5.1. It is possible that there may be insufficient interest in bidding for the work from audit firms, resulting in competitive fee levels not being obtained. This is unlikely if PSAA is used for the procurement, owing to the contract sizes on offer.
- 5.2. If either of the other options are used there may be insufficient interest attracted to enable sufficient choice of potential contractor to be available. If no bids were received or they were of insufficient quality, there is a danger that the Council might run out of time to procure an auditor for the 2018/19 accounts.

6. Background Papers

- 6.1. Local Government and Accountability Act 2014.
- 6.2. Invitation from Public Sector Audit Appointments to become an opted in authority (letter dated 27 October 2016).

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