

REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO
AUDIT & RISK COMMITTEE

Date 29 September 2014

HEADING **INTERNAL AUDIT PROGRESS REPORT – Quarter 1 2014/15**

Submitted by: Audit Manager

Portfolio Finance and Resources

Ward(s) affected All

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1st April to 30th June 2014. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

Recommendations

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

Reasons

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

1 Background

1.1 The Internal Audit Plan for 2014/15 allows for 520 days of audit work.

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

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

1.3 The delivery of an audit plan does not normally show 25% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 10% in the first quarter. Achievement of the 10% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 25% of the plan is not normally achieved due to slippage of the previous years plan, and other factors such as special investigations. The audit plan is a guide to what may be achieved given optimum resources and no external influences; as such it is normal to revise the plan throughout the year to reflect unforeseen issues. Emphasis during such a revision, if required, will be on achieving the high risk audit

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reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Audit Manager with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

2 **Issues**

2.1 **Performance Indicators**

The indicators reported below relate to the end of the first quarter (June 2014).

2.2 **Number of Recommendations Implemented**

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

Up to the end of June 2014, 239 recommendations had been made of which 200 have been implemented, 83%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 83% of all recommendations implemented to date this provides a good indication that managers are responding to and implementing the recommendations made. We would not anticipate this to be any higher at this stage in the year due to varying factors one being the fact some of the recommendations will not yet have reached their implementation date.

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

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2012/13 is 85%.

Out of 4 surveys issued during quarter one, 2 satisfaction surveys were returned, the average for these was 89%.

Progress made against the plan.

This is measured using three indicators;

- **Audit staff utilisation rate:** This indicator demonstrates whether staffing resources are being used to complete non audit duties. Audit duties are chargeable to clients and can include audit reviews, special investigations, consultancy and contributing to corporate initiatives in terms of providing controls advice. Non audit and therefore non productive time covers aspects such as administration, training and leave. The target for productive time is 74%

Productivity at the end of quarter 1 is 86%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 16% of the planned audits had been completed by the end of quarter 1.
- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 12% of the operational audit plan had also been completed against an expectation of 10%.

2.4 **Audit reviews completed and final reports issued between 1 April and 30 June 2014**

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

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

2.5 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since the 1st April 2014. Appendix A provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Chief Executives		
Risk Management	Adequately Controlled	B
Operational Services		
Grounds Maintenance Contract 3	Well Controlled	A
Application Review – Gladstone	Well Controlled	B
Community Centres*	No opinion at this stage	B
Regeneration and Development		
Public Building Maintenance	Adequately Controlled	B
Health & Safety	Adequately Controlled	B
Property Management – Asset disposal*	No opinion at this stage	A
Corporate Reviews		
Corporate Governance	No opinion given – work completed as part of the Annual Governance Statement	A

*part review – the review will be completed in 2 stages this initial review was to ascertain progress to date, the review will be completed later in the financial year no final audit report or recommendations have been issued to date.

Progresses in respect of these particular areas have also been requested by the committee at previous meetings therefore updates have been provided in Appendix A.

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

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

2.6 Consultancy and non audit projects

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

- An assessment of the Council's Corporate Governance arrangements was completed which culminated in the production of the Annual Governance Statement which was presented to the Audit & Risk Committee on the 21st July 2014 for approval alongside the Statement of Accounts. This process involved a number of separate pieces of work being co-ordinated and then an assessment undertaken of the overall governance arrangements for the Council, which resulted in the final statement being produced.
- In addition a total of 18 audit days have been spent undertaking special projects at the request of other Directorates.

3 Options Considered

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

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

4 Proposal

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

5 Reasons for Preferred Solution

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

6 Outcomes Linked to Corporate Priorities

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

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

7 Legal and Statutory Implications

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

8 Equality Impact Assessment

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

9 Financial and Resource Implications

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

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

10 Major Risks

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

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

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

11 Key Decision Information

11.1 Not applicable

12 Earlier Cabinet/Committee Resolutions

12.1 Agreement of the Internal Audit Plan for 2014/15 (Audit and Risk Committee 17 February 2014).

13 Recommendations

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

14 List of Appendices

14.1 Internal Audit Plan 2014/15: Progress to the end of Quarter 1 – 2014/15.

15 Background Papers

15.1 Internal Audit Plan & PI's Folder

15.2 APACE files 2014/15

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Internal Audit Plan 2014/15**Progress to the end of Quarter 1 – 2014/15****Chief Executives Directorate**

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Risk Management	B	Adequately controlled	0	5	0	5

The main objectives of the **Risk Management Review** were to ensure that

- There is an approved Risk Management policy and strategy is in place;
- The officers involved in the Risk Management process have been identified and their roles defined;
- The significance of risks are assessed;
- Control strategies are in place in order to manage risk exposure;
- Consultation with relevant stakeholders has been undertaken regarding Risk Management.

Overall the findings from this review concluded an overall audit opinion of **adequately controlled**. This audit opinion means that there are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.

A number of recommendations were made in order to help improve systems and processes these were in relation to;

- *where any risk review which is more than 6 months overdue these should now be reported to the Audit and Risk Committee.*
- *any reports which are presented to the Committee Section, without the requisite risk assessment should be returned to the relevant report owner.*
- *The 2 identified risks recorded against the Use of Housing Capital Fund profile, should be scored using the Council's standard 3 x 3 matrix.*

Operational Services Directorate**Areas completed in Quarter 1 of the 2014/15 Audit Plan**

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Application Review – Gladstone	B	Well controlled	0	0	1	1
Community	B	No opinion	0	0	0	0

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Centres		at this stage – partial review				
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The main issues arising from the above audits can be summarised as follows;

Application Review - Gladstone (follow up)- follow up of the Gladstone Application review has been undertaken to ascertain whether recommendations from this review have been suitably implemented. There was just one low risk recommendation outstanding from the previous review which related to the periodic testing of business continuity plans.

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

Community Centres – Due to the ongoing review of Community Centres, the key objectives of the audit were to concentrate on ascertaining the level of progress made against a number of key proposals to be adopted, as approved by Cabinet in January 2014. These proposals include both generic measures to be adopted across all Community Centre Management Committees and other specific proposals to be discussed with Committees on an individual basis.

Following a public consultation process, 13 key findings were reported to Cabinet with a number of proposed solutions, which were detailed to each Management Committee by the joint Member and Officer task and finish group by February 2014.

A Community Centre Project Plan is in place detailing key areas to be addressed under seven key headings whereby tasks have been assigned a start date and estimated duration to be undertaken in the period to November 2014 as follows;

- Communication
- Community Centre Guidebook
- Accountancy information
- Utility Contract
- Funding Opportunities
- Recruitment of Committee Members
- Asset Management

Progress in relation to the above is monitored by a Community Centres Officer Working Group meeting every two months, the work of which is shadowed by a Members Community Centres Scrutiny Committee.

Minutes from the latest meeting of the working Group in June 2014 confirmed the following progress to date;

- A comprehensive Community Centres handbook devised for use by all Centres was confirmed to have been issued to nine Centres with the rest to be issued imminently. Some problems have been encountered as some Centres have still not fully established management committees. Recent enquiries verified that to date four Centres have still not been issued with Handbooks.
- The Council's partnership team and VAST have held a funding presentation to raise awareness of funding opportunities for Community Centres.
- The principles for Community Centres to join the Council's utilities contract have been agreed.

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•The principles of the release structure have been agreed which will see a transfer of buildings maintenance issues from the Council to Management Committees over a period of years.

A review of the Council's Risk Management system GRACE, verified that operational risks in relation to Community Centres are recorded on the risk register as follows;

- Health and Safety Management arrangements
- Financial Management
- Community Centre governance arrangements
- Asset management

It could be confirmed that all recorded risks are being managed in line with the Council's risk management procedures and that the latest review of all risks was undertaken in July 2014. Mitigating measures and action plans, where necessary, are evident for each risk.

Enquiries with both the Head of Leisure and Cultural Services and the Sport and Active Lifestyles Manager, confirmed that at the current time, a full audit of Community Centres would neither be conclusive nor add value since project tasks are at various stages of progression and that the autumn of 2014 would be a more prudent time to undertake audit testing as it is hoped that most measures will be implemented at this time in line with the project plan.

As such, it is planned that substantive testing of the implementation of the agreed measures will commence following the autumn report to Cabinet.

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

Contract Name	Contractor	Value of Work	Audit Findings
Grounds Maintenance contract 3	Glendale	£330,000	No problems identified, contract delivered within budget

Regeneration & Development Services

Areas completed in Quarter 1 of the 2014/15 Audit Plan

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Public Buildings Maintenance	B	Adequately Controlled	0	3	2	5
Health & Safety	B	Adequately Controlled	0	5	9	14
Property Management Asset Disposal	A	No opinion given at this stage – partial	0	0	0	0

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		review				
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Public Building Maintenance - The main objectives of this review was to undertake a follow up to the previous audit and ensure that;

- To ensure that planned maintenance issues for public buildings are identified, approved and undertaken in a timely manner.
- To ensure that contracts in place have been awarded in line with the Council's procedures and are being appropriately managed and monitored
- To ensure that reactive work is recorded, allocated and completed in a timely manner and that work undertaken is of the required standard.
- To ensure that staffing levels are adequate and that work is clearly communicated between parties.
- To ensure that all risks are adequately recorded and monitored
- To ensure that systems are in place in relation to performance management.
- To ensure that financial management is undertaken in line with the Council's financial regulations.

This audit review has an overall audit opinion of **adequately controlled**. A number of recommendations were made in order to further enhance and improve the existing controls, these are summarised below;

- Until such time as an electronic system is implemented, a complete record of reactive jobs undertaken should be maintained including date received, job details, allocation details, date the job was completed and (where applicable) inspected.
- Records in relation to rec. 1 should not be retained within Microsoft Outlook in compliance with the Council's email policy. These should be recorded via a spreadsheet.
- The Job Description in relation to the Maintenance Officer (post EE23) should be forwarded to the Human Resources section.
- The Job Description for the Public Buildings Officer (EE24) should be reviewed to ensure that it details current roles and responsibilities and be updated as necessary.
- The format of budget monitoring reports should be reviewed with the Principal Accountant in order to ensure that they are shorter and more comprehensible.

Health & Safety – the main objectives of this review was to ensure that;

- clear policies and guidelines exist in relation to Health and Safety
- responsibilities for Health & Safety have been appropriately assigned.
- appropriate training is offered to all employees
- the identification and monitoring of Health and Safety issues are being appropriately managed.
- the Council is compliant with legislation and best practice.
- systems are in place to ensure Health and Safety compliance for visitors at the Council's sites.
- reporting and benchmarking of Health and Safety incidents is undertaken
- Health and Safety Management information is reported as necessary
- adequate First Aid and Marshal training is provided and recorded
- Legionella and Asbestos risks have been identified and are adequately monitored
- operational risks have been identified / recorded and monitored

Overall the review concluded an overall audit opinion of **adequately controlled**. This audit opinion means that there are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.

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As a result of the audit review a number of recommendations were made in order to improve systems, processes and controls, these have been summarised below;

- Health and Safety displays across all sites should be reviewed to ensure that all relevant information is displayed including current first aid and fire marshal lists. All information should be displayed in a uniform layout.
- Fire Marshals should be identified to replace those who are no longer in position and training provided at the earliest opportunity.
- A review of the Target 100 training matrix should be undertaken to ensure that renewal dates for training are input correctly.
- Departments where risk assessments are overdue for review should be notified that these should be reviewed and updated where necessary. All risk assessments should be completed in full.
- All service areas which have created Action Plans on Target 100 should review to identify any outstanding tasks that are required and also to ensure that they are appropriate and still relevant to the service area.
- The Health and Safety staff handbook should be reviewed and any names of Officers who have now left the Council be amended. An up to date version should be accessible on the intranet.
- Meetings of the Leisure SHE group should take place monthly as agreed and minutes circulated to the Health and Safety Officer.
- The Health and Safety Committee page of the intranet should be updated to reflect the current structure and responsibilities.
- A record of starters and leavers should be forwarded to the Health and Safety Officer periodically in order that first aid / fire marshal lists etc. can be maintained as necessary.
- Health and Safety risk assessments which are no longer deemed current should be deleted / archived from report groups as necessary.
- Enquiries with the T100 software supplier should be initiated as to whether the system can be set up to run reports showing overdue reviews of risk assessments by review date.
- The report groups in T100 should be reviewed and streamlined to ensure that all are relevant and populated with the appropriate risk assessments.
- The minutes of Corporate Health and Safety Committee meetings should be posted to the relevant intranet page.
- The operational risk for the Health and Safety function on the GRACE risk management system should be reviewed as scheduled in line with the Council's risk management procedure.

Property Management – Asset Disposal – An audit of Asset disposals has been scheduled in this year's audit plan. A review of asset disposals identified that since the last review conducted in 2013/14 no further property assets have been disposed of. However it was acknowledged that one of the key disposals for the council is that of Keele Golf course. A review was therefore undertaken to ascertain progress to date in relation to this matter.

A report submitted to Cabinet on 6th March 2014, proposed a number of options available for the site, however it was recommended by Officers that it would not be appropriate to go forward with any of the specific options at that time, rather that Members should proceed with a master-planning exercise to determine the optimum long term use for the site whilst addressing the short term operational issues.

It was therefore resolved that;

- Officers be authorised to engage with nearby/adjacent land owners with a view to jointly commissioning a comprehensive master-planning exercise, involving Borough

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Council owned land in the area in order to establish the most appropriate long term use for the Keele Golf Course site.

- Officers report back on the outcome of the land owner engagement process and to seek approval for a two stage master planning exercise beginning with a scoping report to identify its physical parameters, with any budgetary approval being sought from Council as necessary.
- Officers be authorised to undertake a limited maintenance regime on the basis described in the report until the outcome of the master planning exercise is known.
- Officers be authorised to undertake security measures described in the report.
- Officers be authorised to see expressions of interest in some form(s) of interim use for a period of up to three years.
- Officers keep under review the holding costs attributed to the Keele Golf Course and take all appropriate steps to minimise the same.
- A wider, broader leisure use be kept in mind.

In accordance with the above decisions, the Golf Centre was marketed to let with written expressions of interest invited by 30th May 2014, the outcome of which was reported to Cabinet on 23rd July 2014.

In light of the marketing exercise, it was considered that there was merit in exploring the scope for securing some sort of locally based community recreation uses in the interim period, whilst the commissioning of the master-planning exercise is still proposed in order to identify the most appropriate long term end use for the site taking into account the current Local Plan process as well as service and financial considerations.

The following was therefore resolved at the Cabinet meeting of July 23rd 2014;

- That officers be authorised, in consultation with the relevant Portfolio Holder(s), to undertake a community consultation exercise (for the purpose of informing the master plan) for a period of 8 weeks for initial expressions of interest, this timescale could then be extended to enable these expressions of interest to be expanded upon. The aim of the consultation would be to establish the potential scope for some form of community recreation use of the site in whole or in part on the basis described in the report and that the outcome reported back to the earliest available Cabinet meeting.
- That in parallel with recommendation (a), officers be authorised to procure the most economically advantageous arrangement for short term grounds maintenance in consultation with the relevant Portfolio Holder.
- That officers be authorised to agree, in principle, the terms and scope of a brief with relevant land owners to commission a master-planning exercise in consultation with the relevant portfolio holder, and reported back to Cabinet for approval.
- That the financial resources required as the Council's contribution to the master-planning exercise be sought in accordance with current Financial Regulations.

A review of the Council's Risk Management system GRACE, verified that operational risks in relation to Keele Golf Course are recorded on the risk register as follows;

- Insufficient market interest in the operation at Keele Golf Course.
- Inadequate course maintenance of the golf course.
- Failure to fully consider all the long term strategic options for Keele Golf Course.
- Non-compliance with statutory Health and Safety legislation.
- Additional facilities management costs placing a burden on the Council.

It could be confirmed that all recorded risks are being managed in line with the Council's risk management procedures and that the latest review of all risks was undertaken by the Executive Director of Regeneration and Development in liaison with the Directorate's Risk Champion on 18th July 2014. Mitigating measures and action plans, where necessary, are evident for each risk.

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It is expected that a further report with regard to Keele Golf Course will be submitted to a future Cabinet meeting, after which time further audit days will be utilised with regard to asset disposals.

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

Contract Name	Contractor	Value of Work	Audit Findings
Newcastle Housing Advice Contract	Aspire Housing	£301,616.80p	No problems identified, contract delivered within budget
Silverdale Group Repair Scheme	Thomas Vale Construction Plc	£1,044,470.17p	No problems identified, contract delivered within budget

Corporate Reviews

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

In addition work was completed in relation to **Corporate Governance** which culminated with the completion of the Annual Governance Statement for 2013/14

Note on recommendations

Recommendations fall into one of three categories;

High (H): *action that is considered imperative to ensure that the authority is not exposed to high risks;*

Medium (M): *action that is considered necessary to avoid exposure to significant risks;*

Low (L): *action that is considered desirable and which should result in enhanced control or better value for money.*