### NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

### Date    17 November 2014

HEADING            *INTERNAL AUDIT PROGRESS REPORT – Quarter 2 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 July to 30th September 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 second progress report of the current financial year presented to the Committee and the areas that it will cover are as follows;
   - Actual against planned performance for the first quarter, demonstrating progress against the plan
   - Details of audit reviews completed and final reports issued
   - Consultancy and non-audit work, including corporate work

1.3 The delivery of an audit plan does not normally show 25% of the audits completed on a quarterly basis.  Past experience has shown this is more likely to be around 25% by the second quarter.  Achievement of the 25% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision.  A full 50% of the plan is not normally achieved due to slippage of the previous quarter, and other factors such as special investigations.  The audit plan is a guide to what may be achieved given optimum resources and no external influences; as such it is normal to revise the plan throughout the year to reflect unforeseen

Classification: NULBC **UNCLASSIFIED**

issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Audit Manager with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

## 2  Issues

### 2.1 Performance Indicators

The indicators reported below relate to the end of the second quarter (September 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 September 2014, 258 recommendations had been made of which 227 have been implemented, 92%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 92% of all recommendations implemented to date this provides a good indication that managers are responding to and implementing the recommendations made. We would not anticipate this to be any higher at this stage in the year due to varying factors one being the fact some of the recommendations will not yet have reached their implementation date.

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

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2014/15 is 85%.

Out of 6surveys issued during quarter two, 4 satisfaction surveys were returned; the average for these was 95%.

**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 2 is 85%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 34% of the planned audits had been completed by the end of quarter 2.

- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 27% of the operational audit plan had also been completed against an expectation of 25%.

2.4 **Audit reviews completed and final reports issued between 1 July and 30 September 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** | | |
| Land Charges | Well controlled | B |
| | | |
| **Resources and Support Services** | | |
| Housing Benefit Quarterly Testing | Well Controlled | A |
| | | |
| **Operational Services** | | |
| Operational Services Admin | Adequately Controlled | B |
| Park Attendants | Adequately Controlled | A |
| | | |
| **Regeneration and Development** | | |
| Regeneration & Development Admin | Adequately Controlled | B |
| | | |
| **Corporate Reviews** | | |
| Gifts, Hospitality & Register of Outside work | Well controlled | A |
| Performance Management | Well Controlled | A |
| Partnerships (follow up) | Well Controlled | A |
| Information Asset Register | Adequately Controlled | B |
| Information Governance Toolkit | Adequately Controlled | B |

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 2 there have been 6 audit days spent undertaking special projects at the request of other Directorates, these have involved both the Audit Manager and various members of the audit team.

## 3 Options Considered

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

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

## 4 Proposal

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

## 5 Reasons for Preferred Solution

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

## 6 Outcomes Linked to Corporate Priorities

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

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

## 7 Legal and Statutory Implications

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

Classification: NULBC **UNCLASSIFIED**

**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 2 – 2014/15.

**15  Background Papers**

15.1 Internal Audit Plan & PI's Folder
15.2 APACE files 2014/15

**Internal Audit Plan 2014/15**

**Progress to the end of Quarter 2 – 2014/15**

## Chief Executives Directorate

The following areas have been completed in quarter 2

| Audit Area | Risk Category | Level of Assurance | Number of Recommendations and Classification | | | Total |
|---|---|---|---|---|---|---|
| | | | High | Medium | Low | |
| Land Charges | B | Well Controlled | 0 | 0 | 1 | 1 |

The main objectives of the **Land Charges Review** were to ensure that;

- there are clear procedures on what information can be disclosed as part of a search.
- the Land Charges Register is kept up-to-date and amendments are appropriately authorised.
- entries in the Land Charges Register are supported by documentary evidence.
- the correct fees have been charged.
- the function is adequately insured.
- risks have been identified for the service.

Overall the findings from this review concluded an overall audit opinion of **Well 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.

There was just one recommendation made which was categorised as low risk and this was in relation to ensuring that the Central Services Risk Register is reviewed to ensure that risk reviews are conducted in a timely manner.

## Resources and Support Services Directorate

### Areas completed in Quarter 2 of the 2014/15 Audit Plan

The following areas have been completed in quarter 2

| Audit Area | Risk Category | Level of Assurance | Number of Recommendations and Classification | | | Total |
|---|---|---|---|---|---|---|
| | | | High | Medium | Low | |
| Housing Benefits Quarterly Testing | A | Well Controlled | 0 | 0 | 0 | 0 |

**Housing Benefits Quarterly Testing** - The main objectives of this review are to ensure that;
- claim forms have been completed sufficiently;

- claim forms have been signed by the relevant party / or respective guardian where necessary;
- claims have been subject to the correct verification procedure;
- the supporting evidence has been received and documented within Information@Work;
- supporting documents are returned promptly to the claimant;
- Claims that are not appropriate are rejected.

This audit review has an overall audit opinion of **Well Controlled**. No recommendations were made as a result of this review.


## Operational Services Directorate

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

The following areas have been completed in quarter 2

| Audit Area | Risk Category | Level of Assurance | Number of Recommendations and Classification | | | Total |
| --- | --- | --- | --- | --- | --- | --- |
| | | | High | Medium | Low | |
| Operational Services Administration | B | Adequately Controlled | 0 | 1 | 0 | 1 |
| Park Attendants | B | Well controlled | 0 | 0 | 0 | 0 |

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

**Operational Services Administration-** the main objectives from this review were to ensure that;
- Income due to the Authority is correctly recorded, received and banked promptly and in full;
- The value of the petty cash float held is as approved and documentary evidence exists to support all petty cash expenditure;
- Adequate insurance cover for the function is in existence;
- Up to date inventories are maintained in accordance with the Authority's Financial Regulations;
- Controlled stationery is requisitioned via the central controlled stationery register and is held securely following its acquisition;
- Fees charged are in accordance with the approved scale of fees and charges;
- General security within the section protects assets and records against loss, damage and unauthorised access;
- Adequate controls are in place to protect the ICT equipment used within the function from loss, damage and unauthorised access;
- key risks within the function have been identified and are being consistently monitored. To ensure that Health and Safety risks assessments have been completed as necessary;
- contract registers are maintained in line with the Authority's Standing Orders and Financial Regulations, that contracts are monitored appropriately and are updated to reflect payments against the contracts.

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

Classification: NULBC **UNCLASSIFIED**

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;

- The Administration Manager should be provided with access to the Target 100 system and then given refresher training on how to use the system, enabling risk assessments to be completed.

**Park Attendants** -   the main objectives from this review were to ensure that income in relation the parks service was being collected and administered in accordance with the council's financial regulations.

- A Park Attendant was on duty at the park.
- Receipt books were in use at the Park and had been issued to all paying customers.
- All charges were made in accordance with the Council's Scale of Fees and Charges.
- Daily takings were securely stored in a locked receptacle and are collected on a regular basis by the Senior Rangers.
- An inventory was held at the park, which had been last updated in August 2014.  A random sample of 5 items was selected from the inventory and could be agreed to the physical items held at the park.


## Regeneration & Development Services

### Areas completed in Quarter 2 of the 2014/15 Audit Plan

The following areas have been completed in quarter 2

| Audit Area | Risk Category | Level of Assurance | Number of Recommendations and Classification | | | Total |
|---|---|---|---|---|---|---|
| | | | High | Medium | Low | |
| Regeneration and Development Administration | B | Adequately controlled | 0 | 3 | 0 | 0 |

**Regeneration and Development Services Administration** - The main objectives of this review were to ensure that;

- Income due to the Authority is correctly recorded, received and banked promptly and in full;
- The value of the petty cash float held is as approved and documentary evidence exists to support all petty cash expenditure;
- Adequate insurance cover for the function is in existence;
- Up to date inventories are maintained in accordance with the Authority's Financial Regulations;
- Controlled stationery is requisitioned via the central controlled stationery register and is held securely following its acquisition;
- Fees charged are in accordance with the approved scale of fees and charges;
- General security within the section protects assets and records against loss, damage and unauthorised access;
- Adequate controls are in place to protect the ICT equipment used within the function from loss, damage and unauthorised access;
- key risks within the function have been identified and are being consistently monitored.  To ensure that Health and Safety risks assessments have been completed as necessary;

Classification: NULBC **UNCLASSIFIED**

- contract registers are maintained in line with the Authority's Standing Orders and Financial Regulations, that contracts are monitored appropriately and are updated to reflect payments against the contracts.•

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;

- Inventories should be completed for the Regeneration and Development Directorate for the current financial year.
- When both of the Admin Officers are out of the office, the keys to the safe should be left with a designated, responsible officer in Planning Support.
- The Admin and Performance Officer should be trained on how to use the Target100 system and Health and Safety risk assessments should then be completed for the Admin function.

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

**Areas completed in Quarter 2 of the 2014/15 Audit Plan**

The following areas have been completed in quarter 2

| Audit Area | Risk Category | Level of Assurance | Number of Recommendations and Classification | | | Total |
|---|---|---|---|---|---|---|
| | | | High | Medium | Low | |
| Gifts Hospitality and Outside Interests | A | Well Controlled | 0 | 0 | 0 | 0 |
| Performance Management | A | Well controlled | 0 | 0 | 0 | 0 |
| Partnerships (Follow Up) | A | Well controlled | 0 | 0 | 0 | 0 |
| Information Asset Registers | B | Adequately Controlled | 0 | 2 | 0 | 2 |
| Information Governance (IG) Toolkit | B | Adequately Controlled | 0 | 2 | 0 | 2 |

**Gifts & Hospitality and Register of Outside Works** - This review is completed annually and looks to ensure that staff are reminded of their obligations in respect of the receipt of gifts and hospitality and registering of any outside interests as set out in the Employee Code of Conduct. No issues or concerns were identified with this review.

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

- all performance indicators have been received within the specified time limit,
- variances in the analytical review are in line with expectations given our knowledge of the Authority and this performance indicator,
- the performance indicator is calculated and recorded correctly,
- the correct definition has been used in the calculation of the performance indicator,

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

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


**Partnerships (follow up)** The objective of the audit was to ensure that progress has been made against the issues identified in the last years audit. The previous audit had identified that there were no controls in place and had given an assurance rating of 'poorly controlled' as a result of this a number of recommendations were made that are summarised below;
- All staff should be reminded of the need, as per Financial Regulations, that all partnerships should be recorded in the Council's Partnerships Register.
- The Partnerships Register should be held and monitored centrally by the Business Improvement and Partnerships team.
- The Partnerships Code of Practice should be replaced by a concise document detailing the key requirements of a partnership. This document should reflect current practices and provide a framework within which any partnerships that the Council enters into must work within.

During the course of the follow up audit, it was confirmed that :

- The Partnerships Register is now held by the Legal Services Practice Administrator.
- An email had been sent out to all service areas for information which can be included in the register. It was confirmed by the Legal Services Practice Administrator that responses had been received from all service areas. The Partnerships Register was obtained on 26th August 2014 and it could be confirmed that it had been significantly updated since 2013. As a bare minimum, the Partnerships Register included, the name of the partnership, partners involved, the purpose of each partnership and the officer responsible for the partnership
- A new Partnerships Code of Practice has been devised and was presented to EMT in July 2014. The Code details key information, e.g. the template for partnership agreements and the definitions of a partnership. Also included in the Code are checklists for the signing off of partnerships. The new code of practice was also submitted to Cabinet on the 15 October 2014.


Overall the review concluded an overall audit opinion of **well controlled**. No further recommendations were made


**Information Asset Registers** - Information Asset Registers provide a central record of all the information that is held within the council. The registers provide a record of all the

Classification: NULBC **UNCLASSIFIED**

information that is received into the Council as well as the records that are subsequently disseminated throughout the various departments. The registers also detail the sensitivity/classification of the information held and are also required to support the Councils submission for connection to the Public Services Network.

The main objectives of this review were therefore to ensure that the registers provide an assurance that the council is aware of the nature of all the information that is processed and handled and to ensure that this is done in compliance with Data Protection legislation etc.

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 were mainly to ensure that the registers are continually reviewed and kept up to date

**Information Governance Toolkit (IG Toolkit**) - The Information Governance (IG) Toolkit draws together the legal rules and central guidance to provide a single standard set of information governance requirements. The organisations are required to carry out a self-assessments of their compliance against the IG requirements. The IG Toolkit is also used as a basis for the Information Commissioner's Data Protection Audits and is seen as a best practice checklist for compliance with information security/assurance requirements.  The toolkit identifies different sets of information governance requirements for different organisational types.

Although the Council is not required to formally complete the IG Toolkit it  has been identified as having similar requirements to that which the Information Commissioners Office utilise as part of their data protection audits.  Therefore in order to assess where the organisation currently stands two elements of the toolkit have been examined these being the remaining two elements will be covered as part of next year's audit plan.

The two headings that have been considered are, Information Governance Management and Confidentiality and Data Protection Assurance.

Overall compliance was met with all the criteria with the exception of two elements these being;
- Contracts are monitored and assurance gained in respect of compliance with Information Governance requirements.
- All employment contracts contain comprehensive information governance compliance requirements.

This audit review has an overall audit opinion of **adequately controlled**. The recommendations made were in relation to the areas of non-compliance identified and are summarised below;
- All contracts where applicable should be monitored and comply with information governance requirements.
- Job descriptions Should be updated to include reference to information governance requirements

*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.*