

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

Date 16 November 2015

HEADING **INTERNAL AUDIT PROGRESS REPORT – Quarter 2 2015/16**

Submitted by: Audit Manager

Portfolio Finance IT and Customer

Ward(s) affected All

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1st July to 30th September 2015. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

Recommendations

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

Reasons

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

1 Background

1.1 The Internal Audit Plan for 2015/16 allows for 500 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 second quarter, demonstrating progress against the plan
- Details of audit reviews completed and final reports issued
- Consultancy and non audit work, including corporate work

1.3 The delivery of an audit plan does not normally show 50% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 25% in 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

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 2015).

2.2 Number of Recommendations Implemented

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

Up to the end of September 2015, 240 recommendations had been made of which 208 have been implemented, 87%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 87% of all recommendations implemented to date this provides a good indication that managers are responding to and implementing the recommendations made. We would not anticipate this to be any higher at this stage in the year due to varying factors one being the fact some of the recommendations will not yet have reached their implementation date.

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

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

Two surveys were issued during the second quarter however none of these were returned. This is an issue that we are seeking to address with the implementation of the new audit software system.

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 50%. This figure is lower than target due to the fact that we are in the process of implementing a new audit system which is having an impact on both the audit plan and audit resources and also due to one member of the audit team currently on secondment to the Finance

Team to cover a period of maternity leave. With effect from 7 September 2015 we have employed an agency worker to backfill this secondment and ensure that the audit plan is completed for the current financial year.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 18 % 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%. 20% 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 2015

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

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

2.5 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since the 1st July 2015. Appendix A provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Resources and Support		
Budget Monitoring	Well Controlled	B
Regeneration and Development		
Markets	Well Controlled	B
Building Control	Adequately Controlled	B
Public Building cleaning	Adequately Controlled	B
Planning & Development Control	Well Controlled	B
Corporate Reviews		
Partnerships	Adequately Controlled	A
Transparency Agenda	Adequately Controlled	B
Strategic Risks	Adequately Controlled	A

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

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

2.6 Consultancy and non audit projects

During quarter 2 the Audit Manager has been involved in various projects which have resulted in a total of 20 audit days being spent undertaking special projects at the request of other Directorates.

2.7 Corporate Fraud

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

3 Options Considered

- 3.1 Audit recommendations are discussed and agreed following the issue of the draft audit report. These draft discussions give management the opportunity to discuss and agree the recommendations that have been proposed.
- 3.2 The audit plan is a living document and as such circumstances may arise that affect it; these are considered in the light of risk and decisions taken to enable intelligent variations to be made to the plan.

4 Proposal

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

5 Reasons for Preferred Solution

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

6 Outcomes Linked to Corporate Priorities

- 6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money.
- 6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

7 Legal and Statutory Implications

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

8 Equality Impact Assessment

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

9 Financial and Resource Implications

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

10 Major Risks

- 10.1 If key controls are not in place, managers are exposing their systems, processes and activities to the potential abuse from fraud and corruption.
- 10.2 If key controls are not in place, assurance cannot be given that the Services being delivered provide Value for Money for the Council.
- 10.3 If the risks identified are not addressed through the implementation of agreed recommendations, achievement of the Council's objectives will be affected.

11 Key Decision Information

- 11.1 Not applicable

12 Earlier Cabinet/Committee Resolutions

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

13 Recommendations

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

14 List of Appendices

- 14.1 Internal Audit Plan 2015/16: Progress to the end of Quarter 2 – 2015/16.

15 Background Papers

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

16. Management Sign-Off

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

	Signed	Dated
Financial Implications Discussed and Agreed		
Risk Implications Discussed and Agreed		
Legal Implications Discussed and Agreed		
H.R. Implications Discussed and Agreed		
ICT Implications Discussed and Agreed		
Report Agreed by: Executive Director/ Head of Service		

Internal Audit Plan 2015/16

Progress to the end of Quarter 2 – 2015/16

Resources and Support Services Directorate

Areas completed in Quarter 2 of the 2015/16 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	
Budget Monitoring	B	Well Controlled	0	0	0	0

Budget Monitoring the main objectives of this review were to ensure that;

- A comprehensive budget has been set for 2015/16 and has been appropriately approved.
- An appropriate process was used to set the annual budget in compliance with the Council's constitution and Government regulations.
- There is a process in place for reviewing and monitoring the budget.
- Action plans are in place to address budget variances.
- Budget monitoring reports are disseminated in a timely manner to appropriate committees

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). No recommendations were made in respect of this review.

Regeneration & Development Services

Areas completed in Quarter 2 of the 2015/16 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	
Markets	B	Well Controlled	0	1	0	1
Public Building Cleaning	B	Adequately Controlled	0	4	0	4
Building Control	B	Adequately Controlled	0	1	1	2
Planning & Development Control	B	Well Controlled	0	0	0	0

Markets the main objectives of this review were to ensure that;

- there is documentary evidence to support all market income transactions and that income received is in line with the approved Scale of Fees and charges.
- all money due to the Council is received and correctly recorded and that all money received is banked promptly and intact.
- appropriate monitoring and recovery is undertaken with regards to any arrears incurred by the market traders or operators.
- valid current agreements are in place for the Antiques Market and the Farmers Market and that where necessary the Authority's Financial Regulations and Standing Orders have been followed.
- there is adequate insurance provision relating to the functions carried out.
- arrangements have been implemented to ensure that safeguarding of Council assets.
- risk assessments have been completed and updated on the Target 100 system.
- income and expenditure are recorded in accordance with Financial Regulations.

Overall the findings from this review concluded an overall audit opinion of **well controlled**. This means that controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (VFM). There was just one recommendation that arose from this review, this was in relation to updating the risk assessment to cover a recent change in procedures in relation the collection of income.

Public Building Cleaning; the main objectives of this review were to ensure that;

- Staffing issues are managed appropriately.
- Staff have received relevant training and use appropriate equipment at designated areas.
- Identify methods for allocating and monitoring work to ensure that required standards are met.
- Stock is procured from a competitive supplier. It is held securely and controlled adequately.
- Health and safety and other risk issues have been identified and are subject to monitoring and regular reviews.

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

A number of recommendations were made with a view to helping management to further improve/enhance the current procedures that were in place, these can be summarised as follows;

- The HR department should update records of the 2 cleaners ID details in order to comply with regulations and to ensure that they are eligible to work in the UK.
- Consideration should be given to obtain copies of ID documents previously presented.
- The HR department should ensure that the Corporate Health & Safety Officer is notified of new starters in order to enter their details on to Target 100.
- The Public Buildings Officer should ensure that all cleaning staff have received training in cleaning up to the same industry standard and their records updated accordingly.

- The Property Maintenance Department should complete and record cleaning risk assessments for the 3 outstanding locations or use a generic assessment for all 6 locations. Furthermore the assessments should be monitored on the Target 100 system.
- The Property Maintenance Department should ensure that the 6 cleaners are made aware of the Council's H&S policy and their records updated accordingly.

Building Control; the main objectives of this review were to ensure that;

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

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

A number of recommendations were made with a view to helping management to further improve/enhance the current procedures that were in place, these can be summarised as follows;

- A new Building Control Partnership agreement in collaboration with other interested Local Authorities should continue to be explored and the preferred solution implemented at the earliest opportunity.
- Efforts should be made to ensure that Partnership Board meetings take place at the agreed frequency, currently twice yearly.

Planning & Development Control the main objectives of this review were to ensure that;

- there is adequate documentation to support all planning applications and appeals.
- all planning applications and appeals records are updated appropriately and all relevant parties are notified.
- all applications are dealt with promptly and in line with statutory requirements at all stages.
- planning application procedures, including those in respect of fees and collection of income, are in accordance with statute, and the organisation's Standing Orders and Financial Regulations.
- the scale of fees and charges in respect of other income is in accordance with the organisation's Scale of Fees.
- changes to fees are notified to the relevant employees and all the appropriate literature is updated promptly.
- all applications and appeals are appropriate, bona fide and treated consistently.

Overall the findings from this review concluded an overall audit opinion of **well controlled**. This means that controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (VFM). There were no formal recommendations made following this review, however there were a couple of points to note which related to information being updated on the Uniform Planning System.

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 2015/16 Audit Plan

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Partnerships	A	Adequately Controlled	0	2	0	2
Transparency Agenda	A	Adequately Controlled	2	2	0	4
Strategic Risks	A	Adequately Controlled	0	2	0	2

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

- Partnerships are adequately managed.
- all partnerships entered into, have been done so in accordance with the Council's Financial Regulations.

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. There were just two recommendations that arose from this review these are summarised below;

- The Partnerships Register should be circulated to all directorates and be updated to ensure that the register only includes current, formal partnerships.
- The partnership agreement for the Shropshire and Staffordshire Homeless Prevention Partnership should be signed by NULBC.

Transparency Agenda; the main objectives of this review were to ensure that;

- the information which must be published is recorded and monitored by the relevant service area.
- the information which must be published is done so via the Council's internet site in a single location.
- the information published is complete and the latest information available.
- the necessary information is published at the prescribed frequency.

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 relation to this review, these have been summarised below;

- Heads of Service should ensure that systems are in place to accurately record and report the information required under the Local Government Transparency Code 2015.

- Heads of Service should ensure that all necessary information for publication pertinent to their Service area is maintained in line with statutory guidance and submitted for publication to the website by agreed deadlines.
- A single page of the Council’s website should display all information published in compliance with the Local Government Transparency Code 2015.
- A designated Officer should be allocated the responsibility of managing Transparency data published on the website.

Strategic Risks – the main objectives in relation to this review were to ensure that;

- strategic risks have been identified across the Council and that these risks are reviewed on a regular basis.
- where strategic risks have been identified, that control measures are in place and that where further actions have been identified, that these have been implemented, or are in progress

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. There were just two recommendations that arose from this review these are summarised below;

- All outstanding risk reviews should be completed as soon as possible.
- Details of progress should be recorded against the overdue planned action.

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.*