

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

**Date 15 February 2016**

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

**Submitted by:**            Audit Manager

**Portfolio**                    Finance IT and Customer

**Ward(s) affected**        All

**Purpose of the Report**

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

**Recommendations**

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

**Reasons**

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

**1        Background**

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

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

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

1.3 The delivery of an audit plan does not normally show 75% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 40% in the third quarter. Achievement of the 40% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 75% of the plan is not normally achieved due to slippage of the previous

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

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

## **2 Issues**

### **2.1 Performance Indicators**

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

### **2.2 Number of Recommendations Implemented**

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

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

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

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

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

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

**Progress made against the plan.**

This is measured using three indicators;

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

Productivity at the end of quarter 3 is 50%. This figure is lower than target due to the fact that we are in the process of implementing a new audit system which is having an impact on both the audit plan and audit resources and also due to one member of the audit team currently on secondment to the Finance Team to cover a period of maternity leave. However the staff savings that have arisen as a result of the secondment have enabled 73 audit days to be brought in, these have been covered through the use of an agency worker. This will help to ensure the delivery of the audit plan for 2015/16.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 48 % of the planned audits had been completed by the end of quarter 3.
- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 43% of the operational audit plan had also been completed against an expectation of 40%.

**2.4 Audit reviews completed and final reports issued between 1 October and 31 December 2015**

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

<b>Well Controlled</b>	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)
<b>Adequately controlled</b>	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.
<b>Less than adequately controlled</b>	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.
<b>Poorly controlled</b>	Controls are failing or not present. No assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.

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

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

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

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

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

## 2.6 Consultancy and non audit projects

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

## 2.7 Corporate Fraud

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

## 3 Options Considered

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

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

#### **4 Proposal**

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

#### **5 Reasons for Preferred Solution**

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

#### **6 Outcomes Linked to Corporate Priorities**

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

#### **7 Legal and Statutory Implications**

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

#### **8 Equality Impact Assessment**

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

#### **9 Financial and Resource Implications**

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

#### **10 Major Risks**

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

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

**11 Key Decision Information**

11.1 Not applicable

**12 Earlier Cabinet/Committee Resolutions**

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

**13 Recommendations**

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

**14 List of Appendices**

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

**15 Background Papers**

15.1 Internal Audit Plan & PI's Folder

15.2 APACE files 2015/16

**16. Management Sign-Off**

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

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

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

**Internal Audit Plan 2015/16****Progress to the end of Quarter 3 – 2015/16****Chief Executives Directorate****Areas completed in Quarter 3 of the 2015/16 Audit Plan**

The following areas have been completed in quarter 3

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Locality Commissioning	A	Adequately Controlled	0	2	4	6
Grants	B	Adequately Controlled	0	3	2	5

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

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

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

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



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

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

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

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

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

**Resources and Support Services Directorate**

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

The following areas have been completed in quarter3

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

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

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

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

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

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

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

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

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

**Regeneration & Development Services**

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

The following areas have been completed in quarter 3

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Dog Wardens	B	Well Controlled	0	0	0	0
Economic Development & Promotion	B	Well Controlled	0	0	1	1
Civil Parking	B	Adequately	0	2	0	2

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

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

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

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

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

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

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

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

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

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

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**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 3 of the 2015/16 Audit Plan**

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

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

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

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

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

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

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

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- 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.

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**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.*