

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date 4 July 2016

INTERNAL AUDIT SECTION ANNUAL REPORT 2015-16

Submitted by: Audit Manager

Portfolio: Finance, IT and Customer

Ward(s) affected: All

Purpose of the Report

To consider the annual report of the Internal Audit Section for the financial year 2015-16 enclosed as Appendix A.

Recommendation

That the Internal Audit Section Annual Report for 2015-16 be received.

Reasons

In accordance with the Internal Audit Charter our objective is *"To deliver a risk-based audit plan in a professional manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make the recommendations to improve it"*. This report outlines how Internal Audit has achieved this during the 2015-16 financial year.

1. Background

- 1.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.2 Internal Audit reports directly to the Section 151 Officer who is the Executive Director (Resources and Support Services).
- 1.3 The Section also provides a service to management by giving assurance that there are adequate internal controls in operation, ensuring the proper, economic, efficient and effective use of resources, to include the security of assets and data and to assist management in preventing and detecting fraud. This is achieved by the completion of routine system and regularity audits and, under a wider remit, by value for money and special audits

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- 1.4 The Council's Internal Audit Section consists of 3.5 FTE staff and is managed by the Audit Manager.
- 1.5 This report aims to provide information about the programme of work undertaken by Internal Audit during the financial year 2015-16, which has been extracted from the Internal Audit time monitoring system. Monitoring of the Section's performance against plan is completed and an analysis undertaken of actual work areas across major audit areas.
- 1.6 The section has continued to contract in specialist external computer support. The contract for 2015-16 was awarded to Information Security Advice Limited.
- 1.7 As required by the Public Sector Internal Audit Standards the Audit Manager has developed an Audit Charter in respect of delivering the Internal Audit Service. The internal audit charter is a formal document that defines internal audit's purpose, authority and responsibility. The charter establishes Internal Audit's position within the organisation, including the nature of the Audit Manager's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities. It provides a framework for the conduct of the service and has been approved by the Council's Executive Management Team and the Audit Committee.
- 1.8 The Internal Audit year-end report also builds upon the assurance given by the section in support of the Annual Governance Statement on internal control.

2. **Issues**

- 2.1 The Audit and Risk Committee approved the Audit Plan for 2015-16 on the 16 February 2015. The plan accounted for 452 audit days.
- 2.2 Internal Audit productivity was 60% which is lower than the target of 74%, this has been as a result of work in relation to the new computer system that is in the process of being implemented and also the secondment of one of the Audit Technicians into the Finance Section to cover a period of maternity leave. Productivity for Internal Audit is measured in terms of the available resource which is calculated in terms of audit days, with each day representing 7.4 working hours. The total available days is then adjusted to take into account annual leave, sickness, training, supervision, corporate work and a contingency allowance. The resulting sum is classed as productive days available for the year, for this reason it is not possible to achieve 100% staff productivity.
- 2.3 Completion of the Audit Plan was 91% against a target of 90%.
- 2.4 The percentage of Internal Audit recommendations implemented by your officers has increased from 71% in 2014/5 to 88% in 2015/16 against a target of 90%. This is due to an increase in the number of recommendations made and also an increase in requests to change the target dates which resulted in a larger number of recommendations that remained outstanding at the end of the year. There are no high or medium risk recommendations that are considered as not receiving adequate management attention. Since the start of the new financial year a number of recommendations have now been updated and actioned which has meant that assurances for the start of the year have improved.
- 2.5 The work of Internal Audit shows the Council to have an adequate, effective and reliable framework of internal control, which provides reasonable assurance regarding the effective and efficient achievement of the Council's objectives.

3. **Options Considered**

- 3.1 The provision of specialist computer skilled auditors is bought in as a more economically and effective option to training and trying to retain the same quality of staff internally.

4. **Proposal**

Not applicable

5. **Reasons for Preferred Solution**

Not applicable

6. **Outcomes Linked to Corporate Priorities**

- 6.1 Internal Audit contributes to the prevention, identification and investigation of fraud and corruption and contributes to promoting an anti-fraud culture.
- 6.2 Internal Audit helps to ensure that best use is made of the Council's resources and contributes to improving efficiency whilst underpinning the remaining priorities of the Council.

7. **Legal and Statutory Implications**

The Local Government Accounts and Audit Regulations 2015 require every Local Authority to maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with proper internal audit practices.

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

- 9.1 The total budget, for the Section for 2015/16 was £255,360

10. **Major Risks**

- 10.1 Risk issues are covered in the main report, attached Appendix A.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Report to Audit & Risk Committee 16 February 2015 – Internal Audit Plan 2015-16

13. **List of Appendices**

- 13.1 Annual Report of the Internal Audit Section 2015-16

14. **Background Papers**

APACE time recording system

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Public Sector Internal Audit Standards (PSIAS)