



NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

ANNUAL REPORT OF THE
INTERNAL AUDIT SERVICE
2015/16

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1. INTRODUCTION

The Annual Reporting Process

- 1.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of the system of internal control. This report is the culmination of the work during the course of the year and seeks to:
- provide an opinion on the adequacy of the control environment;
 - comment on the nature and extent of significant risks; and
 - report the incidence of significant control failings or weaknesses.
- 1.2 This report is a summary of the work of the Section throughout 2015-16. As such it presents a snapshot picture of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by Managers to address the weaknesses identified. The recommendations made will be progressing through the normal management processes.

Requirement for Internal Audit

- 1.3 The **role of internal audit** is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of a Council's internal control system because it measures and evaluates the adequacy and effectiveness of controls so that:
- Members and senior management can know the extent to which they can rely on the whole system; and
 - Individual managers can know how reliable the systems are and the controls for which they are responsible.
- 1.4 The internal control system is comprised of the whole network of systems and controls established to manage the Council to ensure that its objectives are met. It includes financial and non-financial controls, and also arrangements for ensuring that the Council is to achieve value for money from its activities.
- 1.5 The requirement for an Internal Audit function derives from local government legislation including Section 151 of the Local Government Act 1972 which requires authorities to "make arrangements for the proper administration of their financial affairs". Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that a relevant body must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control"

2. Adequacy and Effectiveness of the internal control environment

How Internal Control is reviewed

- 2.1 The Audit Manager prepares an annual risk based audit plan which takes into account the adequacy of the organisations risk management, and other assurance processes.

The plan outlines the areas that will be reviewed in terms of their priority and resources required to undertake the review.

2.2 The assessment comprises the two key elements of risk:-

- (i) Impact i.e. the materiality/importance of the system in achieving the Council's objectives; and
- (ii) Probability, which includes:-
 - the results of previous work in the service area/system, both internal and external reviews and also takes into account the last time it was audited;
 - the inherent risk, i.e. the underlying potential for fraud; and
 - the nature and volume of the transactions, which includes financial materiality.

2.3 This risk based approach to audit planning results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:-

- system based reviews of all key financial systems that could have a material impact on the accounts e.g. payroll, creditors, council tax and housing benefits;
- regulatory audits of Council establishments e.g. leisure centres;
- systems based reviews of departmental systems/service areas e.g., planning, human resources, and health and safety;
- corporate reviews e.g. corporate governance arrangements and risk management, and
- a small contingency for special investigations and the provision of ad hoc advice.

Internal Audit Opinion for 2015-16 and the Annual Governance Statement (AGS)

2.4 Regulation 4 of the Accounts and Audit Regulations 2015 requires that:-

“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes risk management arrangements.”

“The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall publish a statement on internal control, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish.”

2.5 Internal Audit, along with other assurance processes of the Council, have a responsibility to provide assurance from the work they undertake during the year in respect of the internal control systems operating within the Council.

*Based on the work undertaken during the year and the implementation by management of the audit recommendations, Internal Audit can provide **reasonable assurance** that the Council's systems of internal control were operating adequately and there were no breakdown of controls resulting in material discrepancy.*

2.6 However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks. These risks are reflected in the audit plan and are the subject of separate reports during the course of the year.

3. SIGNIFICANT ISSUES ARISING 2015-16

3.1 Internal Audit examined 39 systems in 2015-16. During the conduct of our audit work we have had regard to the following objectives of internal audit:

- to review and appraise the soundness, adequacy and application of the whole system of internal control;
- to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures;
- to ascertain the extent to which the assets and interests entrusted to or funded by the Authority are properly controlled and safeguarded from losses of all kinds;
- to ascertain that management information is reliable as a basis for the production of financial, statistical and other returns;
- to ascertain the integrity and reliability of information provided to management including that used in decision making, and
- to ascertain that systems of controls are laid down and operate to achieve the most economic, efficient and effective use of resources.

3.2 Within the Audit Plan there are 10 review areas that are categorised as High Risk Business Critical Systems. These reviews are undertaken annually, full reviews of all systems are conducted every other year with key controls being examined in between. A summary of the level of assurance for each review area together with the number of recommendations made is shown in the table below;

Audit Area	Level of Assurance Given	Number of Recommendations made		
		High	Medium	Low
Payroll*	Well Controlled	0	0	1
Asset Management (Capital)*	Well Controlled	0	0	0
Cash Receipting*	Adequately Controlled	0	2	0
Council Tax*	Well Controlled	0	1	0
Creditors*	Well Controlled	0	0	1
Treasury	Well	0	0	0

Audit Area	Level of Assurance Given	Number of Recommendations made		
Management*	Controlled			
NNDR*	Well Controlled	0	1	0
Civica Financial System	Well Controlled	0	0	0
Housing Benefits				
Sundry Debtors	Adequately Controlled	0	3	1

* denotes systems where only key controls examined in 2015-16

3.3 A summary of the level of assurance, for all of the systems covered in 2015/16 by risk category, is given in the table below:-

Risk	Assurance			
	Full	Substantial	Limited	Little
High (A)	11	4	1	0
Medium (B)	4	18	1	0
Low (C)	0	0	0	0
	15	22	2	0

Opinions are classified as:

Full: The audit did not reveal any control weaknesses based on the samples at the time of the audit.

Substantial: The audit identified areas that required necessary action to avoid exposure to significant risk.

Limited: The audit identified areas where it was imperative to act to avoid exposure to high risks.

Little: The audit identified very little evidence of key controls being in place or a repetition of evidence that known action has not taken place to avoid exposure to high risk, i.e. as identified in previous audits. This exposes the Council to high risks that should have been managed.

3.4 Whilst there are 2 audits that have been classified as Limited Assurance most of these do not have a significant impact on the Council as a whole, many require a small number of changes to be introduced which will lead to significant improvements in the control environment. .

3.5 The main recurring themes across the audits are (figures in brackets demonstrate proportions of outstanding recommendations in these risk areas for 2015/16):

- The lack of written procedures and standards. Without these inconsistencies in working practices can develop, controls can be lost and cover in the event of absences can be haphazard. There is a need to ensure that all employees are made aware of the working practices that they should be following to ensure that

they comply with the correct procedures. During 2015/16 procedure notes were found to be in place for most of the areas that we reviewed however in some instances it was found that these were either lacking or required updating. (36 per cent).

- The completeness and accuracy of records within service areas is important. 13 per cent of the recommendations made during 2015/16 related to issues where records had not been completed correctly, or the correct information was not found. Whilst the categorisation of recommendation accounted for 13 per cent of those made during 2015/16 none of these were categorised as high risk, the majority of these were medium or low and served to act as reminders to staff to ensure care is taken over the recording of data in relation to their particular service areas.
 - Non-compliance with Standing Orders and Financial Regulations was found in a number of areas particularly in relation to the lack of stock and inventory controls, there were also a few relatively minor issues in relation to compliance with contract procedures (6 per cent)
 - Another key area that Internal Audit reviews as part of their work is issues of Information Security. 22 per cent of the recommendations outstanding related to this area, and included issues such as ensuring compliance with the Council's policies on Information Security Management.
 - The remaining 23 per cent of recommendations were categorised in terms of risk issues (5 per cent) staffing issues, particularly in relation to training matters (16 per cent), and business continuity (2 per cent)
- 3.6 In addition to the planned audits 10 special projects were carried out, these were due to various breaches of council policy, procedures and regulations. In all cases where a lack of managerial controls were found to contribute to the improper conduct of officers; a managerial report is completed which highlights the weakness and makes recommendations accordingly. The recommendations from these reports are followed up in the usual way.
- 3.7 Of the 10 special projects identified above, 5 were as a result of the Council's Whistleblowing Policy, and 5 from management.
- 3.8 In relation to main systems, recommendations arising are analysed further in the following section.

4 ANALYSIS OF COMMON OR MATERIAL WEAKNESSES

Analysis of recommendations

4.1 During the period 1/4/15 to 31/3/16 a total of 321 recommendations have been made, of these 39 recommendations were outstanding as at the 31 March 2016. In total 282 recommendations have been implemented, 88%.

Recommendations are classified as:

- High:** Action that is considered imperative to ensure that the authority is not exposed to high risks:
- Medium:** Action that is considered necessary to avoid exposure to significant risks:
- Low:** Action that is considered desirable and which should result on enhanced control or better value for money.

In this context, 'risk' may be viewed as the chance, or probability, of one or more of the association's objectives not being met. It refers both to unwanted outcomes that might arise, and to the potential failure to realise desired outcomes.

4.2 The following table shows the spilt of recommendations over high, medium and low for those that were due for implementation by the 31 March 2016:

	ALL	IMPLEMENTED	OUTSTANDING
High	45	44	1
Medium	179	151	28
Low	97	87	10
TOTAL	321	282	39
Target 2015/16		90%	88%
Proposed target 2016/17		90%	

4.3 Compliance with the agreed action plan will ensure that these risks are addressed. Management has given assurance that the action plans will be completed in accordance with the timetables specified.

Details of major findings not acted upon

Acceptance of recommendations

There were no recommendations rejected by Management during the year.

Recommendations not receiving adequate management attention

4.4 There are no high or medium risk recommendations that are considered as not receiving adequate management attention. Where appropriate outstanding high risk recommendations are reported to Audit and Risk Committee on a quarterly basis.

5 AUDIT PERFORMANCE

Work planned to be completed

5.1 The following table gives a summary of the results of the performance indicators since 2013/14, together with details of actual figures for 2015/16, and target for 2015/16;

Indicator	2013/14 actual	2014/15 actual	2015/16 target	2015/16 actual	2016/17 target
Percentage of audit plan completed	92%	90%	90%	91%	90%
Productivity of staff	79%	85%	74%	60%	74%
Recommendations implemented	89%	71%	90%	88%	90%
Medium to high satisfaction of the service from surveys	93%	94%	90%	90%	90%

5.2 The table below indicates the performance against the audit plan for 2015/16, split over the 3 different risk categories for audits and for the audit plan in total.

	Planned	Actual	Actual (%)
High Risk Audits	17	17	100
Medium Risk Audits	37	32	86%
Low Risk Audits	0	0	0
Achievement of the Audit Plan	54	49	91%

5.3 The 2015/16 audit plan as approved by Audit and Risk Committee provided for 452 days of audit work.

5.4 The level of productivity within the Section was 60% against the target of 74% that was set at the start of the year. Each year the total resources available in Internal Audit are evaluated in terms of audit days, each day representative of 7.4 working hours. This figure is adjusted for leave, training, sickness, 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.

5.5 Out of 54 planned audits, 50 were completed, 91% against a target of 90%.

- 5.6 Completion of audits against the total plan does include some of the Audit Manager's time, since with the time being recorded direct to audit areas it is not practical to identify and remove it completely.
- 5.7 Satisfaction levels in terms of the service remained high at 90% this is above the set target of 85%. Any comments and feedback that is received following each audit is constantly reviewed to ensure that the service continues to meet the expectations of our customers

Factors affecting the extent of our internal audit work

- 5.8 There are a number of issues that have affected the extent of our internal audit work during the year, they are:
- the completion of work as part of a number of special investigations that has absorbed in excess of 124 days audit time, 27% of the original available planned time.
 - In May 2014 the Audit Manager was appointed as the Council's Monitoring Officer following the departure of the former Head of Central Services. Careful consideration was given to this to ensure that this did not undermine the independence role of the audit, however given the similarity in nature to both the roles it was felt that there would be no compromise to independence. In fact as part of the research for this it was found that there have been occasions in other authorities where the role of Monitoring Officer has also been undertaken by the Head of Audit, in a combined post.

6.0 **NON AUDIT AREAS**

- 6.1 This is work undertaken by the Internal Audit Section that is not directly related to audit areas and includes administration, supporting the corporate management of the authority, professional and staff training and attendance at Staffordshire Chief Auditors Group meetings. Non-audit work in 2015/16 accounted for 152 days.
- 6.2 The Internal Audit Section provides support; advice and guidance to corporate initiatives, this year this has included attendance at the Corporate Governance Working Group, the Procurement Working Group, the Health and Safety Committee and the Information Security Group. In addition the Audit Manager is a member of the Resources and Support Services Departmental Management Team and also a member of the corporate Wider Management Team, and in her role as Monitoring Officer attends the Statutory Officers Group.
- 6.3 Work has continued in relation to Corporate Fraud and the development of the role of the Corporate Fraud Officer. In addition during 2015/16 a CIPFA e-learning package in relation to Whistleblowing was purchased and rolled out across the organisation. The training is designed to raise the awareness of Whistleblowing and remind all staff that we have a policy in place and that they should not be afraid to come forward and raise any concerns that they may have. At present this has been delivered to all staff who have access to a computer, the Audit Manager is currently looking at ways in which this training can also be delivered to those operational staff who do not have access to a computer.

7.0 **OPERATIONAL PLANS FOR 2016/17**

- 7.1 Internal Audit will continue to identify ways to actively promote awareness of risks in relation to fraud and corruption in line with the national strategy 'Fighting Fraud Locally'. Training and awareness will continue to be raised across the organisation. During 2016/17 the CIPFA e-learning package in relation to Bribery will be rolled out across the organisation.
- 7.2 The council has also joined forces with Stoke-on-Trent City Council to form a North West Staffordshire Corporate Fraud Team. This also includes Staffordshire County Council and a number of Housing Associations, one of which is ASPIRE housing. This collaboration was successful in securing funding to set up a unit that is designed to tackle all aspects of 'corporate fraud'. The funding was made available by Department for Communities and Local Government (DCLG) to bridge the gap of local authority fraud investigators transferring to the Department for Work and Pensions (DWP) as part of the Single Fraud Investigation Service (SFIS). Operationally this joint venture will see the set-up of a data hub which will allow all the organisations to share information across the different service areas and will also incorporate the award winning 'Spot the Cheater' campaign being rolled out across Borough.
- 7.3 The contract for computer auditing will be provided by Information Security Advice who successfully won the contract to provide computer audit services for 2016/17. Quotations for the computer audit work are sought on an annual basis.
- 7.4 The Section will continue to review and improve its service where appropriate. It will also ensure that adequate training is provided and the role of the Audit and Risk Committee is developed in line with best practice.
- 7.5 The Audit Manager will continue to mentor and coach staff within the section to ensure that the team continues to develop and improve its knowledge and experience in all aspects of audit work.
- 7.6 The Audit Manager will continue to raise the awareness of Information Security in order to ensure that the Authority maintains high standards in terms of the information/data that is held within the organisation, this will be increasingly important as we begin to share accommodation with external partners etc.
- 7.7 The Audit Manager is a member of the Staffordshire Information Governance Group; this looks at Information Governance issues across the county and in addition has developed an information sharing protocol that enables organisations to share information with partner agencies etc.
- 7.8 In April 2013 the CIPFA Code of Practice for Internal Audit in Local Government was replaced with a new set of standards, The Public Sector Internal Audit Standards (PSIAS) which were produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA) to ensure a consistent set of standards for Internal Auditors irrespective of the sector in which they work. An initial assessment against the new standards was undertaken in 2013/14, and then this was further developed during 2014/15 with some joint work being undertaken by the Staffordshire Chief Auditors Group (SCAG) to develop a standardised Quality Assurance and Improvement Programme (QAIP). Under the new PSIAS there is also a requirement to have an external assessment of Internal Audit completed every 5 years. Work has been undertaken collaboratively across Staffordshire through, SCAG

to procure a piece of work to undertake an external assessment in accordance with the PSIAS, this work will be completed during 2016/17.