

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

Date 13 February 2017

HEADING **INTERNAL AUDIT PROGRESS REPORT – Quarter 1 & 2 & 3 2016/17**

Submitted by: Head of Audit & Elections

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 April to 31st December 2016. 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 2016/17 allowed for 526 days of audit work. However as reported to the last committee it has been necessary to review and revise the plan which now equates to 358 days, the reasons for this are explained in 1.4 below.
- 1.2 This is the third 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 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 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

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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 During the current year there have been a number of factors that have affected and influenced the delivery of the audit plan, these include amongst other things work on the implementation of a new computer system, which has taken up considerably more time than originally anticipated partly due to the limited staff resources available to actually implement and develop the system. In addition one of the audit technicians has transferred to a Principal Accountant post in Finance, which alongside a number of other issues which have included issues in both the licensing and election functions have resulted in a number of audit days being lost to dealing with other matters. A copy of the revised plan was presented to the last meeting of the committee on the 14 November 2016.

2 **Issues**

2.1 Audit reviews completed and final reports issued between 1 April and 31 December 2016

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.

- 2.1 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 2016.

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Chief Executives						
Land Charges	B	Well Controlled	0	0	0	0
Car Loans	B	Adequately Controlled	0	1	0	1
Court Fees	B	Adequately Controlled	0	2	0	2
Committee Services	B	Adequately Controlled	0	2	0	2
Resources and Support						
Treasury Management	A	Well Controlled	0	0	0	0
Information @ Work	B	Adequately Controlled	0	5	3	8
Creditors	A	Well Controlled	0	0	0	0
Housing Benefits	A	Well Controlled	0	0	0	0
General Ledger – Main accounts	A	Well Controlled	0	0	1	1
NNDR	A	Well Controlled	0	0	0	0
Information Security	B	Adequately controlled	0	1	0	1
Code of conduct	B	Well Controlled	0	0	0	0
Cloud computing	B	Adequately Controlled	0	2	0	2
Post Opening	B	Adequately Controlled	0	1	0	1
Regeneration and Development						
Conservation Service	B	Well Controlled	0	0	0	0
Health & Safety	B	Adequately Controlled	0	4	1	5
Operational Services						
Operational Services Administration	B	Adequately Controlled	0	1	1	2
Park Attendants	A	Well controlled	0	0	0	0
Recycling Contract	A	No problems identified, contract delivered within budget	0	0	0	0
J2	B	Adequately controlled	0	7	2	9
Final Account – The	A	No problems	0	0	0	0

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Whammy Phase 2		identified, contract delivered within budget				
Final Account – Sports Pavilion Silverdale Colliery	A	No problems identified, contract delivered within budget	0	0	0	0
Corporate Reviews						
Corporate Governance	A	No opinion given – work completed as part of the Annual Governance Statement	0	0	0	0
Gifts & Hospitality	A	Well Controlled	0	0	0	0

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. It should be noted that the risk assessments for the audit areas contained within the 2016/17 audit plan are based on those contained in the former Audit Management system, APACE.

'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.

2.2 Consultancy and non audit projects

During the current year the Audit Team have been involved in various projects which have fallen outside of the audit plan these have included the following;

- Disabled Facilities Grant Verification – this required sign off by the Audit Manager
- Election Payments – some issues identified due to various officers leaving the authority
- Electoral Returns- again issues that needed to be resolved due to various officers leaving the authority

In addition there have been a number of factors that have affected and influenced the delivery of the audit plan, which were referred to in Section 1.4 above.

2.3 Audits on going at start of Quarter 4

During the current quarter the following reviews are currently underway;

Community Centres

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Environmental Protection
Payroll
Procurement
Risk Management
Asset Management - Capital

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 2016/17 (Audit and Risk Committee 15 February 2016).

13 Recommendations

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

14 Background Papers

15.1 Internal Audit Plan & PI's Folder

15.2 APACE files 2016/17

15. 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		