



NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

**ANNUAL REPORT OF THE
INTERNAL AUDIT SERVICE
2016/17**

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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 2016-17. 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 Our mission is;
"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight"

The accepted definition from the Institute of Internal Auditors states:

"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."

- 1.5 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.
- 1.6 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 Head of Audit & Elections 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 2016-17 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 2016-17

- 3.1 Internal Audit examined 30 systems in 2016-17. 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 9 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. For 2016/17 key control reviews were conducted for all systems. 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	1	0
Asset Management (Capital	Well Controlled	0	0	0
Council Tax	Well Controlled	0	1	0
Creditors	Well	0	0	0

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

- 3.3 A summary of the level of assurance, for all of the systems covered in 2016/17 by risk category, is given in the table below:-

Risk	Assurance			
	Well Controlled	Adequately controlled	Less than adequately controlled	Poorly controlled
High (A)	10	1	0	0
Medium (B)	3	16	0	0
	13	17	0	0

Opinions are classified as:

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.

- 3.4 A total of 68 recommendations were made during 2016/17, recommendations are classified as

High Risk – Action that is considered imperative to ensure that the authority is not exposed to high risks; (Implemented within 1 month)

Medium Risk – Action that is considered necessary to avoid exposure to significant risks; (Implemented within 3 months)

Low Risk – Action that is considered desirable and which should result in enhanced control or better value for money.

The 68 recommendations can be broken down as follows;

	High Risk	Medium Risk	Low Risk
Total	1	41	26

The main themes arising from the recommendations were in relation to compliance with contract procedures, financial regulations, staffing issues in respect of training and the updating of procedure notes. Recommendations during 2016/17 have been monitored on a manual basis whilst work has been on-going to implement a new audit management system, Pentana.

4 **AUDIT PERFORMANCE**

4.1 The table below indicates the Section's performance against the audit plan for 2016-17

	2016-17			
	Planned	Actual	Actual %	Target %
Original Plan	53	30	57%	90%
Revised Plan	35	32	91%	90%

Thirty-two audits were completed in the year out of the Fifty-three planned for in the original 2016-17 Audit Plan.

4.2 The revised audit plan was reported to Audit & Risk committee in November 2016 and was revised due to a number of factors that affected and influenced the delivery of the original audit plan. These included work on the implementation of the new computer system, Pentana, which has taken up considerably more time than was originally anticipated partly due to the limited resource available to actually implement and develop the system. In addition one of the audit technicians was transferred to a Principal Accountant post in Finance, which alongside a number of other factors which included issues in both the licensing and election teams resulted in a number of audit days being lost to dealing with other matters.

4.3 In addition to the audit plan the Section has also carried out a number of other pieces of ad hoc work and minor consultancy exercises, these have included work on Disabled Facilities Grants and also completion of claims for Election Expenses.

5. **FRAUD & IRREGULARITY WORK**

Pro-active Fraud work

5.1 The Internal Audit section has taken a proactive approach to the prevention / detection of fraud and corruption. During the year it has:-

- Continued membership of the Midlands Fraud Forum;

- Working with Stoke on Trent City Council on the development of a North West Staffordshire Corporate Fraud Hub..

Fraud/Irregularity Investigations

- 5.2 A number of special projects have been 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
- 5.3 No allegations have been received through the Council's Confidential Reporting or Anti-fraud and Bribery frameworks in the year.

National Fraud Initiative Datamatching

- 5.4 The Council is a statutory participant in the Cabinet Office's National Fraud Initiative (NFI) exercise which is carried out every 2 years. The 2016-17 matches have recently been received and are being reviewed by the relevant departments.

6. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

- 6.1 A review of the effectiveness of the system of Internal Audit has been undertaken within the year as part of the Quality Assurance and Improvement Programme as required by PSIAS. There were two key elements to the review:-
- the Head of Audit & Elections has conducted a self-assessment of the section in relation to compliance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN); and
 - an External Quality Assessment carried out by Cipfa in January 2017. The outcome of this review was presented to the Audit & Risk Committee in April 2017.
- 6.2 The review concluded that Internal Audit is effective and conforms sufficiently with the requirements of PSIAS/LGAN to ensure that the opinion given in this Annual Report can be relied upon for assurance purposes. The full results of the review are given in a separate report to the Audit and Risk Committee.
- 6.3 In order to ensure the quality of each audit, Head of Audit & Elections reviews each report to sign it off. These processes form part of the internal quality assurance process and helps to provide a consistent approach between the auditors.

7 FACTORS AFFECTING THE EXTENT OF OUR INTERNAL WORK

- 7.1 There are a number of issues that have affected the extent of our internal audit work during the year, they are:
- the implementation of a new audit management system which has taken longer than anticipated to develop and implement due to limited resources with the audit team.

- the Head of Audit & Elections in addition to her role of monitoring officer has taken the responsibility for elections and is now the Head of Audit & Elections..
- In seeking to provide an independent and objective opinion it is accepted that, being located within the organisation, the Internal Audit function cannot be wholly independent of all management. Internal Audit's independence will therefore be achieved through its organisational status although the Head of Audit & Elections is also the Council's Monitoring Officer this does not undermine or compromise the independence. Consideration was given as to whether or not there would be any conflict with regards to the issue of Independence, however given the similarity in nature to both the roles it is felt that there would be no compromise to independence. Any audit work undertaken on electoral services or directly related to the role of the Monitoring Officer will be reported directly to the S151 officer and not to the Head of Audit and Elections

8. **NON AUDIT AREAS**

- 8.1 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.
- 8.2 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 Head of Audit & Elections 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.

9.0 **OPERATIONAL PLANS FOR 2017/18**

- 9.1 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 2017/18 the CIPFA e-learning package in relation to Bribery will be rolled out across the organisation.
- 9.2 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.
- 9.3 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 Standards Committee is developed in line with best practice.
- 9.4 The Head of Audit & Elections 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.

- 9.5 The Head of Audit & Elections 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.
- 9.6 The Head of Audit & Elections 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.