NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date   13 November 2017

HEADING   *INTERNAL AUDIT PROGRESS REPORT – Quarter 2 2017/18*

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 July to 30th September 2017. 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.

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1   **Background**

1.1 The Internal Audit Plan for 2017/18 allows for 435 days of audit work.

1.2 This is the second 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 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 25% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 25% in the second quarter. Achievement of the 25% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 50% 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 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 Head of Audit & Elections with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

2   Issues

2.1 **Performance Indicators**

The indicators reported below relate to the end of the second quarter (September 2017).

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 September 2017, 121 recommendations had been made of which 83 have been implemented, 69%, this has increased from 43% at the end of quarter one. The target for the implementation of all recommendations is 96% by the end of the financial year.

The introduction of automated recommendation tracking is starting to embed across the organisation as Heads of Service and Business Managers are now logging into a web portal to provide updates on their outstanding recommendations. These updates are then reviewed by members of the Internal Audit team before being approved within the system for completion and sign off.

Progress made against the plan.

This is measured using two 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%

  Reporting for this performance indicator is still under development.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 35% of the planned audits had been completed by the end of quarter 2, this set against a target of 25%.

2.3 **Audit reviews completed and final reports issued between 1 July and 30 September 2017**

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.

2.4 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 2017.

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	**Medium**	**Low**	
Chief Executives						
Member Services	B	Adequately Controlled	0	1	1	2
Resources & Support Services						
Treasury Management	A	Well Controlled	0	0	0	0
Sundry Debtors	A	Adequately Controlled	0	2	0	2
Regeneration & Development Services						
Housing Strategy	B	Well Controlled	0	0	1	1
Corporate Reviews						
Freedom of Information	B	Adequately Controlled	0	1	1	2

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.

2.5 **Consultancy and non-audit projects**

Members will recall that it was previously reported that during the latter part of the first quarter the new audit management system, Pentana went live During the second quarter we have continued to develop the system further and currently looking at different ways that information and the outcomes from audit reviews can be reported to the committee. The reporting functionality within the system is fairly flexible and I would be happy to explore with the members of the committee what information/level of detail they would like to see reported to future meetings.

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 2017/18 (Audit and Risk Committee 13 February 2017).

13 Recommendations

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

14 Background Papers

14.1 Internal Audit Plan & PI's Folder
14.2 Pentana