

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL
REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO
AUDIT & STANDARDS COMMITTEE

Date: 10th February 2020

INTERNAL AUDIT PROGRESS REPORT – Quarter Three 2019/20

Submitted by: Chief Internal Auditor, Clare Potts

Portfolio Finance and Efficiency

Ward(s) affected Not Applicable

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1st October to 31st December 2019. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues and recommendations.

Recommendations

- 1. That Members consider the report.**
- 2. That Members agree to defer the audits listed in section 3.2 (Table 2) below**

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. Where required, recommendations are made and agreed with management to ensure that key controls are well designed and operating effectively which provides assurance as to the efficiency and effectiveness of the system, service or process under review.

1 Background

1.1 The Internal Audit Plan for 2019/20 allows for 365 days of audit work.

1.2 This is the third 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 two quarters, demonstrating progress against the plan
- Details of audit reviews completed and final reports issued
- Outstanding recommendations for audit work previous undertaken
- Consultancy and non-audit work

2. Performance Against Plan

2.1 The Audit & Standards Committee approved the internal audit plan for 2019/20 at the April 2019 meeting. Progress against the annual audit plan (i.e. planned audits completed), is outlined in table 1 over. As at the end of December 2019, of the 33 areas / services of scheduled assurance work for 2019/20, 19 (57.6%) had either been completed or were in progress.

Table 1
2019/2020 Planned Audit Activity as at the end of December 2019

Stage	No.	%	Comment
Audits completed	5	15.2%	Listed at Table 3: October to December 2019
Audits in progress	14	42.4%	Listed at Table 4
Remaining Audits due this Year	6	24.2%	
Audits Deferred – Quarter 2	6	18.2%	See 3.2 below
Audits Deferred – Quarter 3	2		See Table 2 below
Total	33	100.0%	

2.2 The planned work in progress at the end of December 2019 is outlined at Table 2 below. It is intended that this will be completed during the final quarter of 2019/2020.

3 Issues

3.1 Following the most recent review of the plan it has been identified that the percentage of audits completed or in progress is below the expected 75% at the third quarter stage. The plan is regularly monitored and where necessary revised to take into account both unforeseen and new developments. During the past 9 months the internal audit team have been involved in special investigations which have meant that a number of planned audits have been delayed. Whilst flexibility was included in the original plan to support internal investigations, this has not been sufficient to cover all the work required.

3.2 As audit resources are finite, it is important to target resources at areas considered to be high risk (where risk includes potential impact on the delivery of the council's objectives) and high priority, ahead of medium/low ranked audits. In this way the audit resource will be most efficiently utilised and will produce the greatest benefit. To assist the internal audit team, alternative arrangements for the delivery of some audits have been put in place.

3.3 The audits approved by the Committee for deferral at the end of quarter 2 were Jubilee 2, Major projects, commercial review, GDPR compliance, project management, Application system security (Mitre Finch – Time Recording System / Guard and Payroll systems). Following a further review, it is now proposed that the audits listed in table 2 below are deferred for the reasons given in the table.

Table 2 – Further Audits to be Deferred

Audit	Rationale for Deferral
Planning	To be deferred to 2020/21 audit plan as new Head of Service in post and priority is to be given to the preparation of the Joint Local Plan.
Brexit	Audit deferred to 2020/21 audit plan in light of the Brexit deal agreed before Christmas.

3.3 Deferring the audits listed in table 2 above will enable the remainder of the 2019/20 planned to be delivered within the financial year. This will be kept under review and a further update provided to the Committee in the annual report.

3.4 The Council's s151 officer is satisfied that delivery of the remaining audits will ensure sufficient audit coverage over the course of the year to provide an acceptable level of assurance about the adequacy of management controls.

4. Audit reviews completed and final reports issued between October to December 2019

4.1 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.

4.2 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 review completed since the 1st October 2019.

**Table 3
Audits Completed July to September 2019**

Audit Area	Level of Assurance	Number of Recommendations and Classification			Total
		High	Medium	Low	
Chief Executives					
HR Absence Management	Less than adequately controlled	0	14	1	15
Resources & Support Services					
Purchase to Pay	Well controlled	0	1	0	1
Corporate					
Corporate Governance	Adequately controlled	0	2	3	5

4.3 In respect of the HR Absence Management Review, action has already been taken to address the identified weaknesses and 12 of the 15 audit recommendations had been implemented as at the end of Q3. A new Attendance Management Policy is

now in place. Reminders have been issued to staff and managers to ensure the key requirements of the new policy are being actioned. Training for managers on the new policy is also currently ongoing. A follow up audit was completed in January and a revised audit opinion of adequately controlled issued. This will be reported in the annual report to this Committee.

- 4.4 A number of audits were in progress at the end of December 2019 and these are shown in the table 4 below.

**Table 4
Planned Audits in progress at the end of December 2019**

Directorate	Audit	Status (Preparation / Fieldwork / Draft / Since issued)
Resources & Support Services	Income Collection incl. Cash Handling	Preparation
	Asset Management Capital	Fieldwork
	Council Tax	Fieldwork
	Housing Benefits	Fieldwork
	Civica - General Ledger	Draft
	NNDR	Draft
	Sundry Debtors	Draft
Operational Services	Kidsgrove Sports Centre Community Asset Transfer	Preparation
Corporate	Ethics	Preparation
	Procurement	Fieldwork
	Contract Management Governance	Fieldwork
IT Audit Assurance (External)	Application system user security review – Housing and associated homelessness systems	Fieldwork
	Identity and Access Mgmt (Cyber Controls Managing User Privileges)	Fieldwork
	Cyber Controls Framework – Malware Prevention – including Internet content filtering controls.	Fieldwork

5. Number of Recommendations Implemented

- 5.1 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.
- 5.2 At the end of quarter two there were no outstanding high priority recommendations. High priority recommendations are those where action is considered imperative to ensure that the authority is not exposed to high risks. It is therefore agreed with management that high level recommendations are implemented within one month of the report date.
- 5.3 During quarter three, a full review of all outstanding recommendations was undertaken to ensure service managers were aware of the outstanding recommendations and are actively undertaking the required improvements. This has improved the number of outstanding recommendations from the quarter 2 position

but further work is required and increased monitoring will continue to ensure as many recommendations as possible are implemented by the end of the year.

- 5.3 For the current financial year, up to the end of December 2019, 50 recommendations had been made, of which 10 have not yet reached their due date for implementation. Eight recommendations are not implemented and are overdue. These relate to reviews of corporate governance, recycling and absence management. Six of the recommendations are of medium priority with three concerning recycling and two regarding corporate governance.
- 5.4 For the previous financial year (2018/19), a total of 54 recommendations were made, of which 39 have been implemented, which represents 72% of those recommendations due. The target for the implementation of all recommendations is 96% by the end of the financial year. Therefore this target has not been achieved. Internal audit will continue to work with managers to ensure that all remaining recommendations are implemented as soon as possible.
- 5.5 A number of recommendations also remain overdue from prior financial years. A summary of all overdue recommendations by financial year is in table 5 shown below. A further summary of outstanding recommendations for each of the four directorates can be found at Appendix A.

Table 5 – Recommendations Not Yet Implemented

Financial Year	Not Yet Due		Overdue		Total
	Extended	Not Extended	Extended	Not Extended	
2019/20	0	10	2	6	18
2018/19	0	2	7	6	15
2017/18	0	0	1	1	2
2016/17	0	0	0	0	0
2015/16	0	0	7	0	7
Total	0	12	17	13	42

- 1.3 With the production of the Annual Governance Statement in conjunction with the Statement of Accounts the follow up and implementation of recommendations is increasingly important, since they provide both officers and Members with assurance as to the effectiveness of key internal controls.
- 1.4 Assurance is provided on an annual basis as part of the Internal Audit Annual Report. It is also provided to each Executive Director on a monthly basis, based on the number of recommendations that have been implemented, and where the target date has been changed more than twice on either medium or high risk recommendations.
- 5.8 Internal audit will continue to work with appropriate service managers to ensure that all remaining outstanding recommendations are implemented.

6 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 monitored on a regular basis to ensure that it is achievable and reflects the key risks affecting the council. Due to internal audit involvement in an on-

going special investigation, a review of the planned audits not yet started has been undertaken and an option to defer a number of audits is therefore proposed.

7 Proposal

- 7.1 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.

8 Reasons for Preferred Solution

- 8.1 By implementing the recommendations, the exposure to risk is reduced and achievement of the Council's objectives maximised. The completion of the audit plan provides assurance of the Council's systems and internal controls.

9 Outcomes Linked to Corporate Priorities

- 9.1 The Internal Audit team directly contribute to the corporate priority "transforming our Council to achieve excellence". The mission of internal audit is "To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight" (Public Sector Internal Audit Standards). The results of the work undertaken during the year contribute to the overall annual internal audit opinion. This assists the Audit & Standards Committee and the Executive Management Team to discharge their roles of accountability and stewardship which represents a key element within the Authority's governance framework.

- 9.2 The Internal Audit function also 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. Therefore ensuring the best use of the Council's resources and improving efficiency where weaknesses are identified to support all the council's priorities.

10 Legal and Statutory Implications

- 10.1 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'.

11 Equality Impact Assessment

- 11.1 There are no equality impact issues identified from this proposal.

12 Financial and Resource Implications

- 12.1 The work of the Internal Audit team is carried out within an approved budget. The financial implications resulting from the recommendations made within audit reports will be highlighted within individual reports wherever possible. It is the responsibility of managers receiving audit reports to take account of these financial implications, and to take the appropriate action.

13 Major Risks

- 13.1 The role of Internal Audit is to provide management with an objective assessment of whether systems and controls are working effectively. High risk recommendations identify areas where action is required in order to manage exposure to risk. If managers fail to act upon audit recommendations assurance cannot be given on the adequacy of the systems of internal control.

- 13.2 The further risk to be considered in noting this report is that the independent and objective assurance provided by Internal Audit is, or is perceived to be, compromised. The consequence of which is that opportunities to improve the Authority's system of internal controls, governance framework and the delivery of its objectives are not identified or acted upon. This risk is managed through a combination of the governance and reporting frameworks within which Internal Audit operates and the overview carried out by this Committee. No risks have been identified that are not within acceptable tolerances.

14 Key Decision Information

- 14.1 Not applicable

15 Earlier Cabinet/Committee Resolutions

- 15.1 Approval of the Internal Audit Plan for 2019/20 (Audit and Standards Committee 15 April 2019).

16 Appendices

- 16.1 Summary of Outstanding Audit Recommendations and Level of Assurance 2019/20 – at Quarter Three 2019

17 Background Papers

- 17.1 None.