

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

**Date 23rd September 2013**

**HEADING**                      **INTERNAL AUDIT PROGRESS REPORT – Quarter 1 2013/14**

**Submitted by:**              Audit Manager

**Portfolio**                      Finance and Budget Management

**Ward(s) affected**        All

**Purpose of the Report**

To report on the work undertaken by the Internal Audit section during the period 1<sup>st</sup> April to 30<sup>th</sup> June 2013. 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 key to ensure that the Council has assurance that controls are in place and operating effectively across all Council Services and Departments.

• **Background**

1.1 The Internal Audit Plan for 2013/14 allows for 530 days of audit work.

1.2 This is the first 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 10% in the first quarter. Achievement of the 10% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 25% of the plan is not normally achieved due to slippage of the previous years plan, 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 Audit Manager with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

- **Issues**

### **2.1 Performance Indicators**

The indicators reported below relate to the end of the first quarter (June 2013).

### **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 June 2013, 338 recommendations had been made of which 311 have been implemented, 92%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 92% of all recommendations implemented to date this provides a good indication that managers are responding to and implementing the recommendations made. We would not anticipate this to be any higher at this stage in the year due to varying factors one being the fact some of the recommendations will not yet have reached their implementation date.

### **2.3 Percentage of clients who are satisfied or very satisfied with the service provided**

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2012/13 is 85%.

Out of five surveys issued during quarter one, just one satisfaction survey was returned during, the average for this was 79%. The issue with regards to the return of satisfaction surveys has been under review and various options are being reviewed and considered to help improve this process.

### **Progress made against the plan.**

This is measured using three 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%

Productivity at the end of quarter 1 is 85%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 12% of the planned audits had been completed by the end of quarter 1.
- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 12 % of the operational audit plan had also been completed against an expectation of 10%.

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**2.4 Audit reviews completed and final reports issued between 1 April and 30 June 2013**

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:

<b>Well Controlled</b>	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)
<b>Adequately controlled</b>	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.
<b>Less than adequately controlled</b>	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.
<b>Poorly controlled</b>	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.

2.5 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 1<sup>st</sup> April 2012. Appendix A provides fuller details of these audit reviews under each service area.

<b>AUDIT REVIEW</b>	<b>AUDIT OPINION</b>	<b>Risk Category</b>
<b>Chief Executives</b>		
Insurance	Well Controlled	B
<b>Resources and Support Services</b>		
Information Security	Adequately Controlled	B
Housing Benefit Quarterly Testing	Well Controlled	A
<b>Regeneration and Development</b>		
Section 106 Agreements	Adequately controlled	B
Planning and Development Control	Well Controlled	B
Alterations to Civic Offices (Police Accommodation)	Well Controlled	A
<b>Corporate Reviews</b>		
Corporate Governance	No opinion given – work completed as part of the Annual Governance Statement	A

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.

## **2.6 Consultancy and non audit projects**

During quarter 1 the Audit Manager has been involved in various projects which have included the following;

- An assessment of the Council's Corporate Governance arrangements was completed which culminated in the production of the Annual Governance Statement which was presented to the Audit & Risk Committee on the 15<sup>th</sup> July 2013 for approval alongside the Statement of Accounts. This process involved a number of separate pieces of work being co-ordinated and then an assessment undertaken of the overall governance arrangements for the Council, which resulted in the final statement being produced.
- In addition a total of 10 audit days have been spent undertaking special projects at the request of other Directorates.

- **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.

- **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.

- **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.

- **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.

- **Legal and Statutory Implications**

7.1 The Accounts and Audit Regulations 2011 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

- **Equality Impact Assessment**

8.1 There are no differential equality impact issues identified from this proposal.

- **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.

- **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.

- **Key Decision Information**

11.1 Not applicable

- **Earlier Cabinet/Committee Resolutions**

12.1 Agreement of the Internal Audit Plan for 2013/14 (Audit and Risk Committee \*\* February 2013).

- **Recommendations**

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

- **List of Appendices**

14.1 Internal Audit Plan 2013/14: Progress to the end of Quarter 1 – 2013/14.

- **Background Papers**

15.1 Internal Audit Plan & PI's Folder  
15.2 APACE files 2013/14

## Internal Audit Plan 2013/14

### Progress to the end of Quarter 1 – 2013/14

#### Chief Executives Directorate

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Insurance	B	Well Controlled	0	0	0	0

- The main objectives of the Insurance Review are to ensure that;
  - the Authority has suitable procedures for the co-ordination and control of insurance issues.
  - the Authority makes use of appropriate insurers to provide its insurance cover and that appropriate methods are used in their selection.
  - Appropriate procedures have been adopted for the identification, quantification and reduction of risk.
  - Insurance cover arranged is in line with the Authority's requirements and is suitable for the activities undertaken.
  - Procedures have been adopted which ensure that all claims are dealt with consistently and that they are monitored and followed up.
  - Renewal of policies takes place on a regular basis. Appropriate information is retained to assist in the renewals process.
  - Complete and accurate financial information is maintained with regard to the insurance function.

Overall the review concluded an overall audit opinion of **well controlled**. This means that 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).

#### Resources and Support Services Directorate

##### Areas completed in Quarter 1 of the 2013/14 Audit Plan

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Information Security	B	Adequately Controlled	0	2	5	7
Housing Benefits Quarterly Testing	A	Well Controlled	0	0	0	0

The main issues arising from the above audits can be summarised as follows;

**Information Security** – the main objectives for this review are to ensure that;

- the Council seeks to develop a culture that properly values, protects and uses information for the public good and that there are clear lines of accountability throughout the organisation together with a programme of raising staff awareness starting at induction stage.
- the Council protects the security of their information through the physical security of their buildings, premises and systems.
- the Council has proper document systems in place and that it's suppliers, partners and contractors work to the same standards when handling their information. That it also monitors and audits the effectiveness of the policies and where appropriate engages independent experts to test ICT systems and make recommendations.
- the Council produces a Corporate Information Risk Policy, which sets out how it will implement the measures therein as well as produce policies for risk reporting and risk recovery. That it also ensures that there are mechanisms in place to test, monitor and audit the policies and procedures of the council

Overall the findings from this review concluded an overall audit opinion of **adequately controlled**. This audit opinion means that 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.

As a result a number of recommendations were made which can be summarised as follows;

- ensuring compliance with the Information Security policies in terms of disposal of confidential waste,
- producing an information charter, and
- ensuring all risks in relation to information security issues are captured within the GRACE system.

**Housing Benefits Quarterly Testing** – the main objectives of this review are to ensure that;

- claim forms have been completed sufficiently;
- claim forms have been signed by the relevant party / or respective guardian where necessary;
- claims have been subject to the correct verification procedure;
- the supporting evidence has been received and documented within Information@Work;
- a prompt return of supporting documents to the claimant is made;
- claims that are not appropriate are rejected; and
- the correct Local Housing Allowance rates have been correctly inputted.

Overall the review concluded an overall audit opinion of **well controlled**. This means that 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).



## Regeneration & Development Services

### Areas completed in Quarter 1 of the 2013/14 Audit Plan

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Section 106 Agreements	B	Adequately Controlled	0	0	0	0
Planning and Development Control	B	Well controlled	0	1	0	1

**Section 106 Agreements** - The main objectives of this review was to undertake a follow up to the previous audit and ensure that;

- recommendations made at the last audit had been completed.
- S106 agreements are being closely monitored and information is recorded and reconciled on an ongoing basis
- all interested parties have access to relevant information and that this is notified to relevant personnel.
- payments due and received are appropriately recorded, monitored and reported

This audit review has an overall audit opinion of **adequately controlled**. Although no recommendations were made in light of the implementation of recommendations made at the last audit, the review acknowledged that improvements had been made in relation to the systems and process however the majority of these were still in their infancy and being developed and refined.

**Planning and Development Control** – the main objectives of this review was to ensure that;

- there is adequate documentation to support all planning applications and appeals.
- all planning applications and appeals records are updated appropriately and all relevant parties are notified.
- all applications are dealt with promptly and in line with statutory requirements at all stages.
- planning application procedures, including those in respect of fees and collection of income, are in accordance with statute, and the organisation's Standing Orders and Financial Regulations.
- the scale of fees and charges in respect of other income is in accordance with the organisation's Scale of Fees.
- changes to fees are notified to the relevant employees and all the appropriate literature is updated promptly.
- all applications and appeals are appropriate, bona fide and treated consistently.

Overall the review concluded an overall audit opinion of **well controlled**. This means that 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).

There was just one recommendation and that related in allowing further staff to have access to the cash receipting in order to provide cover for this area of work

In accordance with Financial Regulations all final payments made against a contract need to be verified by Internal Audit before payment can be made. During quarter 1 the following final payments have been audited

<b>Contract Name</b>	<b>Contractor</b>	<b>Value of Work</b>	<b>Audit Findings</b>
Alterations to Civic Offices (Police Accommodation)	Platt and Shufflebottom	£118,394.55p	No problems identified, contract delivered within budget

### **Corporate Reviews**

These are audit reviews that cut across all Service Areas, as such Audit Briefs go out to all Executive Directors, Corporate and Service Managers and reporting is done on an individual service level in order to retain confidentiality of the issues identified.

In addition work was completed in relation to **Corporate Governance** which culminated with the completion of the Annual Governance Statement for 2012/13

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### **Note on recommendations**

*Recommendations fall into one of three categories;*

**High (H):** *action that is considered imperative to ensure that the authority is not exposed to high risks;*

**Medium (M):** *action that is considered necessary to avoid exposure to significant risks;*

**Low (L):** *action that is considered desirable and which should result in enhanced control or better value for money.*