

Newark & Sherwood District Council

Internal Audit Annual Report – 2017/18



What we do best...

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

...and what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

Contents

Page

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The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

Purpose of Annual Report	1
Our opinion on governance, risk and the control environment	1
How we came to our opinion	2
Scope of work	5
Restrictions on scope/change of plan	6
Delivery of internal audit plan 2017/18	7
Effectiveness of internal audit	9
Quality Assurance	10

Appendix 1 - Internal Audit Assurances Given 2017/18
Appendix 2 - Quality Assurance Framework
Appendix 3 - Continuous Improvement Plan
Appendix 4 - Glossary of Terms

Distribution List

Chief Executive
Directors
External Audit



Management Summary

Purpose of Annual Report

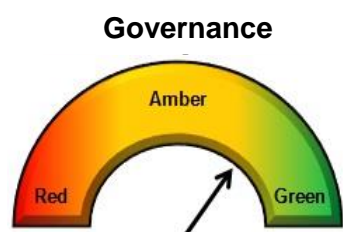
1. The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. In particular:-
 - Include an independent opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it;
 - Inform how the plan was discharged and the overall outcomes of the work undertaken that supports the opinion;

- A statement on conformance with the PSIAS and the results of the internal audit quality assurance and improvement programme (QAIP);
- Draw attention to any issues particularly relevant to the Annual Governance Statement.

Annual Opinion

2. For the twelve months ended 31 March 2018, based on the work we have undertaken and information from other sources of assurance, my opinion on the adequacy and effectiveness of Newark and Sherwood's arrangements for governance, risk management and control is shown in **Figure 1** below:-

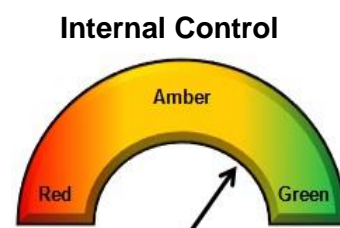
Figure 1 - Head of Internal Audit Opinion



Performing Well – Some improvements identified over the Council's governance, risk and control framework or to manage medium risks across the Council.



Performing Well – No concerns that significantly affect the risk management framework and successful delivery of the Council priorities.



Performing Well – Some improvements identified over the Council's control framework or to manage medium risks across the Council.



Performing Well – No concerns that significantly affect the governance, risk and control framework and successful delivery of the Council priorities.

How we came to our opinion

Governance

3. Good governance underpins everything the Council does and how it delivers services often comes under close scrutiny. It is therefore vital that resources focus on agreed policy and priorities; that there is sound and inclusive decision making with clear accountability for the use of those resources. This ensures that the Council achieves the desired outcomes for the people of Newark and Sherwood.
4. The Audit and Accounts Committee helps to ensure that these arrangements are working effectively. They regularly review the governance framework and consider the draft and final versions of the Annual Governance Statement.
5. Taking the above information into account we have assessed the governance framework as **green** - performing well.

Risk and Internal Control

6. We took account of the outcome of our internal audit work during the year. Although some of our reports are at draft report stage this did not adversely affect my overall opinion given our findings. Details of work completed can be found in **Appendix 1**.

7. There were no areas which received a 'low' assurance opinion this year. We gave four areas a 'limited' assurance opinion on the activity and another had a split opinion with one aspect receiving 'limited' assurance.

ICT – Starters, Leavers and Movers – The Council does not currently have policies and procedures that support the creation and management of user accounts for staff and external parties which would support compliance with the PCIDSS and best practice ISO standards. We found that there were issues with ensuring that user accounts are deleted from the network promptly, ease of ability to identify external party access and the necessary security checks (Baseline Personnel Security Standard screening) are not always carried out for ICT staff.

Estates Management - Our review identified that improvements are required to maximise the income generation, a return on the investment and the occupancy for the Council's commercial properties, which Oxford Innovation manages at the Newark BIC.

Business Continuity - A follow up review was undertaken following the previous audit. Overall we found that most of the actions included in the review from 2016/17 were being progressed and therefore the overall RAG rating has improved. The majority of the Amber rated actions should move to Green once the Business Continuity Plan (BCP) is approved and adopted. Because it had not been approved, we were unable to give more than Limited Assurance.

PCIDSS – Indicative assurance. The Council has not progressed the required documentation and evidence to support the annual PCI DSS compliance assessment. As a result the Council is not PCI DSS compliant and we can only give a limited assurance opinion at this time. Additional pressures have been experienced in the Council as it relocated its premises, diverting a lot of IT resources. The Assistant IT Manager left the Council. This position has not been filled, although PCI DSS compliance has now been picked up by a member of staff within the IT section.

Performance Management (Strategic Alignment aspect) -

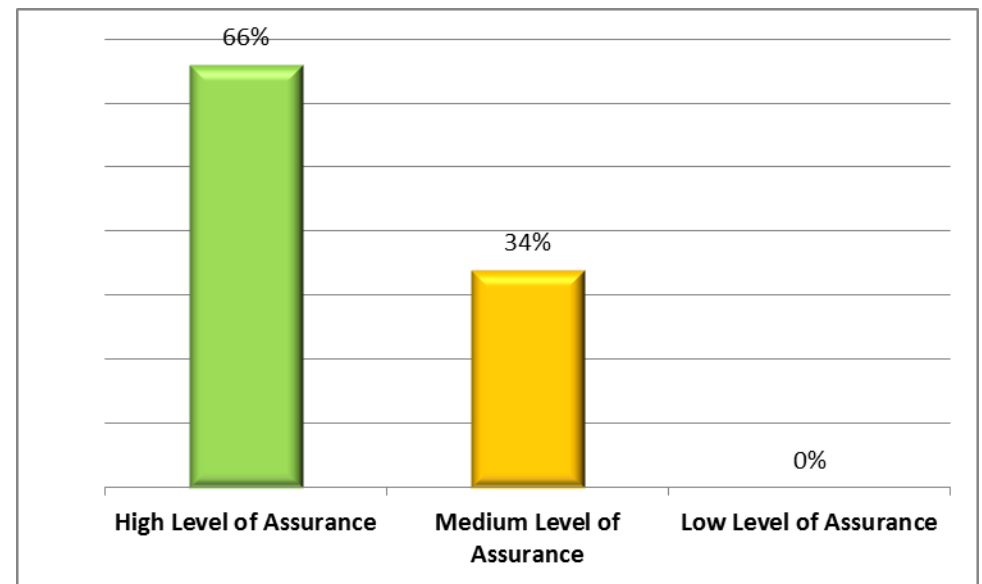
Substantial work is required to review the suite of the performance indicators in the performance management system ensuring they are aligned to, and support the Council’s strategic priorities.



Combined Status Report

- 8. The Council completed its Combined Assurance work for 2017/18. **Figure 2** provides the summary of the overall assurance status on the Council's critical activities¹ – it shows there are no areas identified where assurance is low and there has been a decrease in the number of activities shown as amber.

Figure 2 – Overall Assurance Status on Critical Activities



¹ Those identified by senior management as having significant impact on the successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss or impact on people

9. During the year we undertook a number of consultancy engagements and other work for the Council: These were:
- **Debtors Trade Waste** – We were requested to provide a critical eye (third party review) into the adequacy of the new processes and proposed controls associated with the implementation of the ESB system, giving advice on the areas where suggested improvements in control design are necessary. We made two recommendations based on the proposals including checking the security of the cash load file and user roles.
 - **Safe** - The Director Resources asked that the process for holding safe keys was reviewed following an incident where the key was not kept where it was expected to be. We made some recommendations around Keyholders, Insurance and Supervision.
 - **Other areas included:**
 - Gilstrap accounts
 - Mansfield crematorium
 - Cattle market – rent collection / fee modelling
10. Taking all of the above information into account we have assessed the internal control environment as **green** – performing well.

Risk Management

11. There is an established framework in place for the Council to manage the key risks facing services and successful delivery priorities with regular reporting to management and members.
12. The Audit and Accounts Committee continues to receive regular updates on how the Council manages its risks.

13. A 2017/18 audit of the Council's risk management processes provided a 'substantial' audit opinion. The Risk Management arrangement is adequately managed and the related processes currently in place are operating effectively to reduce the impact of the risk.
14. We also benchmarked the Council's current risk management arrangements and provided an assessment of maturity based on our knowledge of the Council's risk management arrangements and accepted good practice. Our overall assessment is that the Council has reached Level 3 in terms of risk management maturity – with some areas reaching Level 4. On this basis we have assessed risk management as **green** – performing well.

Financial Control

15. Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts. During the year we reviewed:
- Income / Banking arrangements
 - Housing Benefits / Council Tax Support
 - Insurance
 - Key Financial Controls
16. The Council has good financial management processes in place – that generally work well. We are pleased to report that we were able to provide 'substantial' assurance opinions on the areas we reviewed. On this basis we have assessed financial control as **green** – performing well.

Roles and Responsibilities

17. The Council is responsible for establishing and maintaining risk management processes, control systems and governance arrangements. Internal Audit plays a vital role in providing *independent risk based and objective assurance* and *insight* on how these arrangements are working. Internal Audit forms part of the Council's assurance framework.
18. Where Internal Audit work has identified improvements, we have worked with management to agree appropriate corrective actions and a timescale for improvement. It is the responsibility of management to implement the agreed actions.
19. The Council is responsible for developing and publishing an Annual Governance Statement – reporting how they have monitored the effectiveness of their governance arrangements during the year – providing information on any significant governance issues.
20. The Annual Internal Audit Report should inform the Annual Governance Statement - we recommend that the 'limited' assurance areas identified in paragraph 8 are considered in the development of the Council's Annual Governance Statement, together with the information obtained as part of the Council's Combined Assurance work (summarised in paragraph 9).

Annual Governance Statement

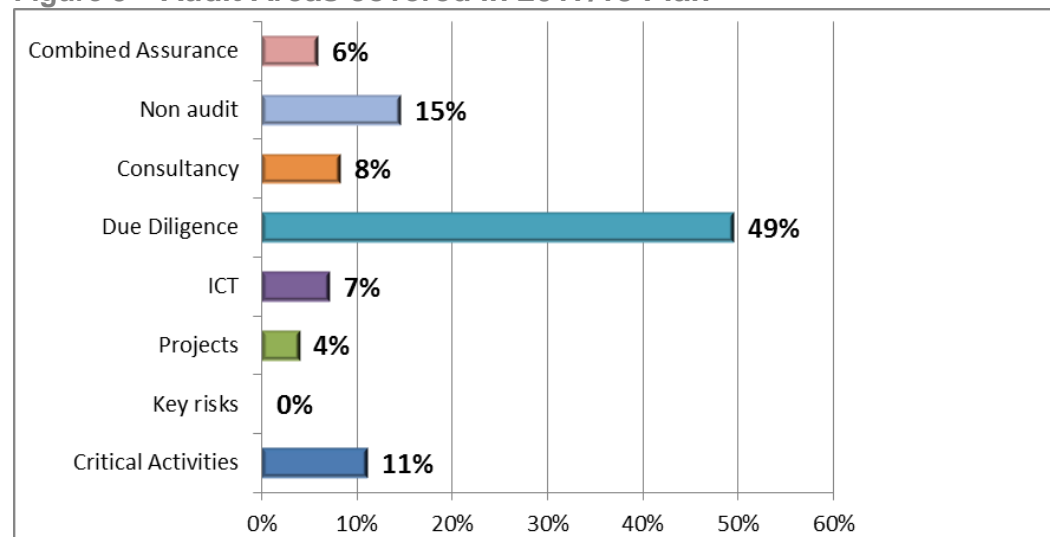
21. The outcome of our internal audit work has helped inform the Council's Annual Governance Statement – we recommend the following areas are considered during the development of the Statement:

- Emergency Planning
- PCI DSS compliance
- Estates Management
- Business Continuity

Scope of Work

22. Our risk based internal audit plan was prepared taking into account the critical activities and key risks to support the basis of my annual opinion. It has remained flexible to enable us to respond to emerging risks and maintain effective focus.
23. We have delivered 96% of the revised plan - 255 days and 26 jobs. **Figure 3** shows the audit areas we covered during the year.

Figure 3 – Audit Areas covered in 2017/18 Plan



Restrictions on Scope / Changes to plan

24. Audit and Accounts Committee approved the original audit plan of 285 days in February 2017. In carrying out our work we identified no unexpected restrictions to the scope of our work. We have had difficulties in gaining access to staff which resulted in some delay or inability to deliver work as planned – most of these areas have been incorporated into the 2018/19 plan. These include:-
25. A number of changes were made to the plan resulting in a net reduction of 30 days (11%). *Audits added to the 2018/19 plan.

The key reductions to the plan were:-

Leisure Centre Client Management* – it was agreed with the client that this audit was postponed to the 2018/19 plan and that the days were used to complete the revised scope for a higher priority audit.

Strategic Asset Management* – the Asset Management Team was going through a restructure and the Business Manager was not appointed until part way through the year therefore it was not felt to be appropriate to carry out the audit at this time. It was agreed that this audit would be carried out in 2018/19.

Housing and Planning Act – this was rescheduled to 2017/18 from 2016/17 due to awaiting guidance and updates from the Government but this has not been forthcoming and some aspects of the Act have been removed.

Funding – this was put into the plan by the previous Business Manager and the current Business Manager considered that the scope was covered elsewhere.

Emergency Planning* – this had to be rescheduled to 2017/18 at the end of the year due to the inability to arrange a meeting with staff within the Community Safety Business Unit during 2016/17. It was added onto the 2017/18 plan but has again had to be rescheduled due to availability of staff and staff vacancies.

The key additions to the plan were:-

Debtors – Trade Waste – we were asked by the Business Manager Waste and Recycling to review the proposals for the new debtors system to account for Trade Waste debtor accounts to ensure that the proposals are reasonable and suggest any further action.

Business Continuity – further to the previous review we carried out a follow-up review to ensure that progress had been made to implement the recommendations.

Safe security - The Director Resources asked that the process for holding safe keys was reviewed following an incident where the key was not kept where it was expected to be.

26. I do not consider these changes to have had an adverse effect on the delivery of my overall opinion.
27. We have not experienced any impairment to our independence or objectivity during the conduct and delivery of the Internal Audit Plan.



28. The charts in **Figure 4** shows the assurance opinions given in 2017/18 compared to those in 2016/17. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment. We can see from the charts that the overall assurance levels have changed significantly from 2016/17 with a large increase in the number of Limited, more High and considerably fewer Substantial assurance levels. There was no Low assurance opinions given this year. Details of systems reviewed can be found in Appendix 1.
29. The charts in **Figure 5** show the comparison of internal audit recommendations made 2016/17 and 2017/18 which remain similar. Details of systems reviewed can be found in **Appendix 1**.
30. We track the implementation of agreed management actions. Over the past year management have implemented **70%** of recommendations due by the 30th June 2018. Details of outstanding recommendations are shown in **Appendix 1**.

Figure 4 – Comparison of Assurances

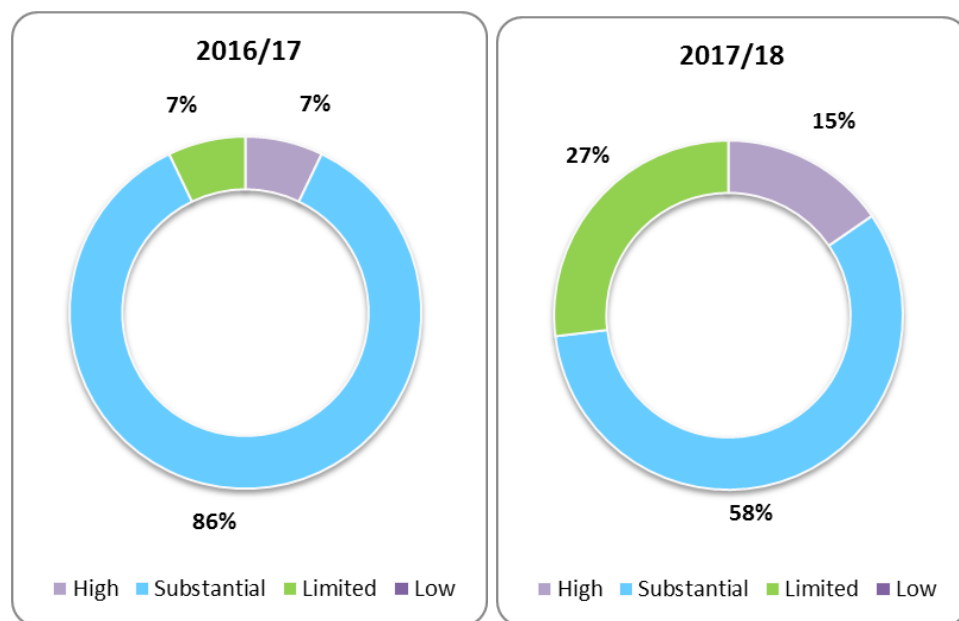
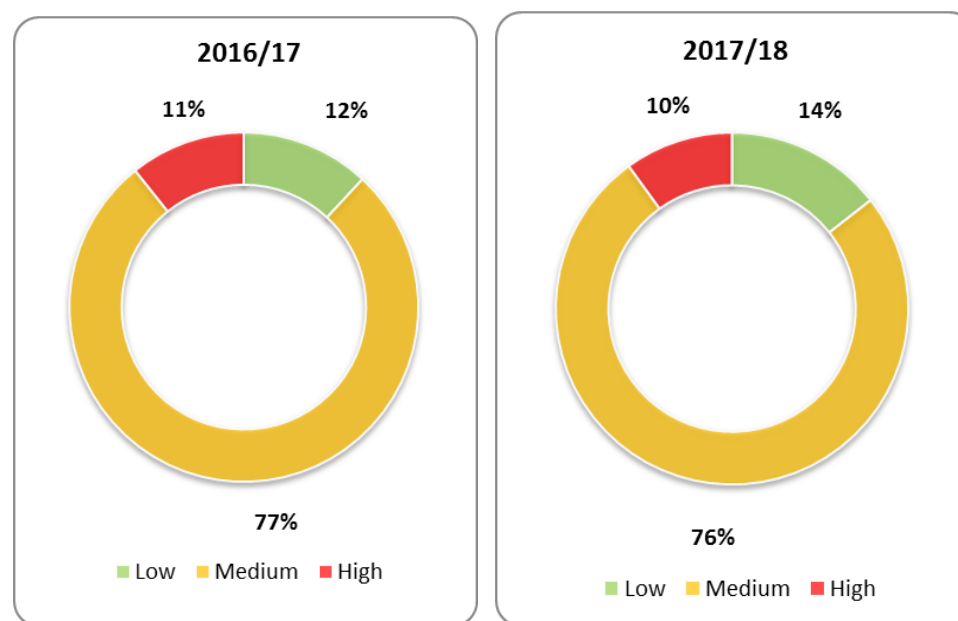


Figure 5 – Recommendations Made



Other Significant Work

Work completed for other related Bodies

31. We delivered the agreed annual internal audit plan for Newark and Sherwood Homes of 45 days. The outcome of these audits has been reported to them with an annual report produced for Newark and Sherwood Homes.

Fraud

32. We facilitated the update of the Council's Fraud Risk Register through the running of a workshop and feeding the results into a revised Register for approval.

Delivery of internal audit plan 2017/18

33. The Audit and Accounts Committee approved the 2017/18 audit plan in February 2017. We have delivered 96% of the revised plan.
34. Internal Audit's performance is measured against a range of indicators. The table in **Figure 6** shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement against our targets.
35. We will continue to work with Senior Management to help improve the audit process – including:
- engagement and agreement of scheduled audits
 - swift escalation of issues affecting progress and delivery of the audit plan
 - improving client feedback survey returns – currently 27%

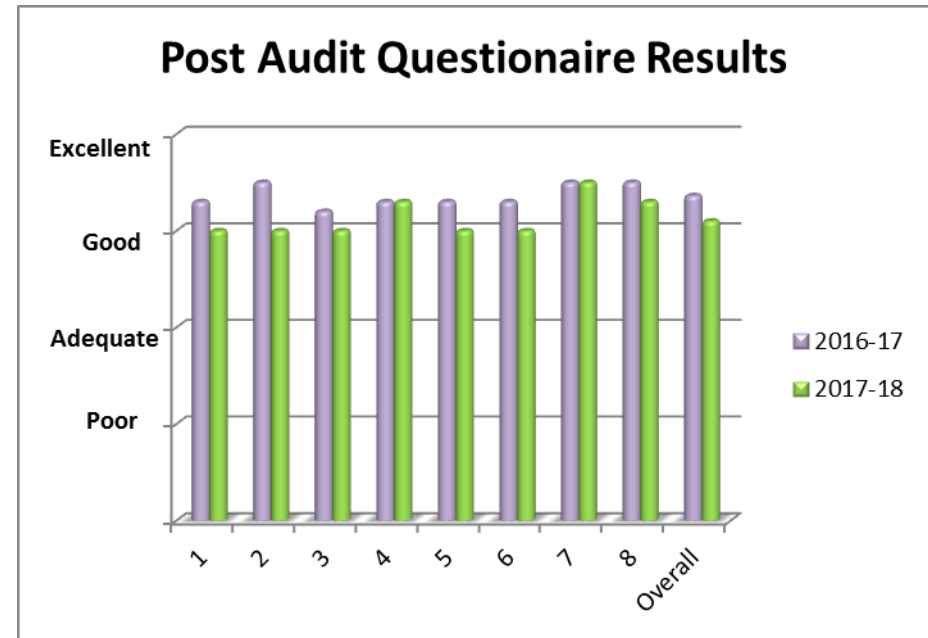
Figure 6 Performance on key indicators

Performance Indicator	Target	Actual
Percentage of plan completed - Jobs	100% (revised plan)	96%
Percentage of recommendations agreed.	100%	100%
Percentage of 2017/18 recommendations due implemented.	100% or escalated	70%
Client Feedback on Audit (average)	Good to excellent	Good

Effectiveness of Internal Audit

36. We regularly canvass opinions on audit planning, report and communication from management responsible for activities under review. They score the effectiveness of our service as excellent, good, adequate or poor.
37. The table in **Figure 7** outlines the responses by management on our service. For 2017/18 there was a 27% questionnaire return rate, we are changing the processes for 2018/19 to encourage a greater return rate. The overall average rating for the service was good.

Figure 7 – Client Feedback



Questions:

Audit Planning

1. Consultation on audit coverage
2. Fulfilment of scope and objectives

Audit Report

3. Quality of report
4. Accuracy of findings
5. Value of report

Communication

6. Feedback during the audit
7. Helpfulness of auditor(s)
8. Prompt delivery of report



Quality Assurance

38. We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards. We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.
39. Our commitment to quality begins with ensuring that we recruit, develop and assign appropriately skilled and experienced people to undertake your audits.
40. Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.
41. Our Quality Assurance Framework (**Appendix 2**) includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. We are able to evidence the quality of our audits through performance and delivery of audits, feedback from our clients and an annual self-assessment.
42. There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings. A training programme has been developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.
43. Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards. An External Quality Assessment was undertaken in September 2016. No areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity was identified. One area of partial non-compliance on the lack of a specific audit of ethics and values was identified. This area was included in the 2017/18 plan.
44. Our quality assurance framework helps us maintain a continuous improvement plan, which includes the following:
- Update Internal Audit Charter and practice manual following revision of PSIAS in April 2017 and CIPFA Application Note (still awaiting publication)
 - Working with management to improve progress and delivery monitoring / audit scheduling and implementation of recommendations.
 - Support development of the Audit Committee, following publication of CIPFA Audit Committee practical guidance.
 - Continuing professional development around new and emerging practice guidance.
45. Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work.

Appendix 1

Internal Audit Assurances Given 2017/18

Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	Outstanding		
					High	Medium	Not Yet Due
Corporate Governance	April 2017	Consultancy	0	0	0	0	0
Corporate Policy	June 2018	Consultancy	0	0	0	0	0
Car Parks	February 2018	Substantial	8	6	0	2	0
Leisure Centres – Client Monitoring	Rescheduled to 2018/19		0	0	0	0	0
ICT - Operations	February 2018	Limited	10	9	0	1	2
ICT – Compliance - PCIDSS	April 2018	Limited*	3	0	0	0	3
ICT – Application - Meritec	June 2018	Substantial*	4	0	0	0	4
Information Governance	February 2018	High	0	0	0	0	
Moving Ahead		In progress	0	0	0	0	0
Performance Management and Assurance	February 2018	Limited / Substantial	13	7	0	0	6
Risk Management	April 2018	Substantial*	6	0	0	0	6
Health and Safety	April 2018	Substantial*	10	0	0	0	10
CCTV	July 2018	Draft report	0	0	0	0	0
Estates Management	December 2017	Limited	7	3	0	1	3
Strategic Asset Management	Rescheduled to 2018/19		0	0	0	0	0
Key Control Testing	April 2018	Substantial*	0	0	0	0	0

Appendix 1

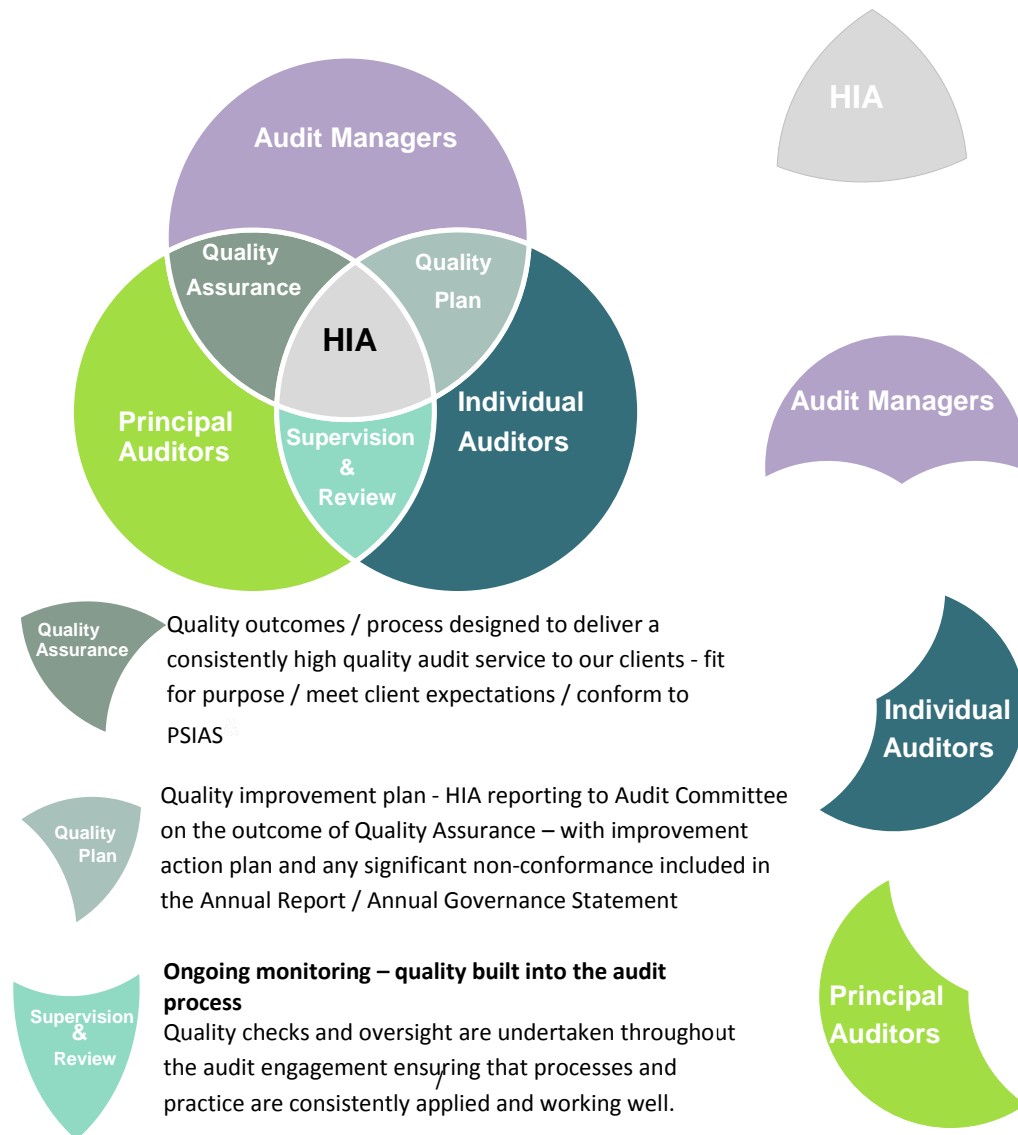
Internal Audit Assurances Given 2017/18

Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	Outstanding		
					High	Medium	Not Yet
					Due		
Income/Banking arrangements	February 2018	Substantial	6	4	0	0	2
Funding	Rescheduled to 2018/19		0	0	0	0	0
Procurement	April 2018	Substantial	4	1	0	0	3
Housing Benefits/Council Tax Support	October 2017	High	2	0	0	2	0
Contract Management	June 2018	Consultancy	0	0	0	0	0
Insurance	November 2017	High	4	4	0	0	0
Housing and Planning Act	Removed no longer relevant		0	0	0	0	0
Combined Assurance	December 2017	N/A	0	0	0	0	0
Active4Today	April 2018	Substantial*	0	0	0	0	0
Gilstrap	August 2017	N/A	0	0	0	0	0
Mansfield Crematorium	April 2017	N/A	0	0	0	0	0
Newark Cattlemarket	September 2017	N/A	0	0	0	0	0
Emergency Planning	Rescheduled to 2018/19		0	0	0	0	0
Debtors - Trade Waste	August 2017	Consultancy	0	0	0	0	0
Business Continuity	April 2018	Limited	0	0	0	0	0
Safe	April 2018	Consultancy	0	0	0	0	0

* Indicative – Reports not yet finalised



Appendix 2 - Quality Assurance Framework



Annual self- assessment

- Head of Internal Audit - develop & maintain Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- External Quality Assessment – completed in September 2016 and confirmed that our practice conforms to the Public Sector Internal Audit Standards

Periodic quality assurance assessments

- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Provide HIA with quarterly highlight reports on outcome of reviews

- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services

- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review

Appendix 3 - Glossary of Terms

Assurance Definitions

<p>High</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<p>Substantial</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p>Limited</p>	<p>Our critical review or assessment on the activity gives us a The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p>Low</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Head of Internal Audit Annual Opinion

The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.

Governance

Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management - plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.