



East
Northamptonshire
Council

Scrutiny Committee – 3 April 2013

Welland Internal Audit Consortium – Progress Report

Purpose of report:

To provide Members with information on the progress made by the Consortium on the delivery of the Annual Audit Plan for 2012/13 and associated measures of performance. The report also provides an overview of key audit findings and recommendations from the audit reports that have been issued.

Attachment(s):

Appendix 1: Progress Report for 2012/13 to week 48
Appendix A: Progress Report – Detailed performance against plan

1.0 Background

- 1.1 The Welland Internal Audit Consortium provides the internal audit service for East Northamptonshire Council and is contracted to provide 230 audit days to deliver the 2012/13 Annual Audit Plan.
- 1.2 The Public Sector Internal Audit Standards require periodic reporting to the Audit Committee including the performance of Internal Audit against the agreed plan and any key findings regarding the council's risk management and control arrangements highlighted in the course of work completed.
- 1.3 Discussion has taken place with the Chair of the committee regarding how Internal Audit Performance reports could be improved to address the needs of the Audit Committee.

2.0 Progress with the Annual Audit Plan

- 2.1 Appendix 1 provides further explanation on the requirements of the committee as it acts as the council's Audit Committee. Appendix 1 also includes information on the completion of audit assignments and the associated assurance ratings of these assignments, along with performance information for the Welland Internal Audit Consortium.
To provide Members with the most current performance information the report analyses Internal Audit's performance to the end of week 48 (i.e. 1st March 2013) the latest date practical for reporting to this committee.

3.0 Key Issues

- 3.1 The Consortium is now in a strong position in terms of delivering all required audit assignments for 2012/13 in a timely manner to allow for the delivery of the annual audit opinion.
- 3.2 All assignments completed to date have received a 'Good' or 'Sound' assurance rating and no significant control weaknesses have been identified.

4.0 Equality and Diversity Implications

- 4.1 There are no equality and diversity implications arising from the report

5.0 Legal Implications

5.1 There are no legal implications arising from the report.

6.0 Risk Management

6.1 There are no significant risks arising from the proposed recommendations in this report.

7.0 Financial Implications

7.1 There are no financial implications arising from the report

8.0 Corporate Outcomes

Effective Management - The Annual Audit Plan is designed to provide Members with assurance as to the effective management of the council’s most significant risks.

9.0 Recommendation

9.1 The committee is recommended to note the progress and performance of the Consortium.

(Reason - Consistency with previous decisions.)

Legal	Power:				
	Other considerations:				
Background Papers: None					
Person Originating Report: Nicola Scott, Audit Manager, 07787 860067, nscott@rutland.gov.uk					
Date: 8 March 2013					
CFO		MO		CX	

(Committee Report Normal Rev. 22)

WELLAND INTERNAL AUDIT CONSORTIUM

East Northamptonshire Council



Appendix 1 to Item 6c Scrutiny Committee 3 April 2013

1 Introduction

- 1.1 The Welland Internal Audit Consortium provides the Internal Audit service for East Northamptonshire Council and is contracted to provide 230 audit days to deliver the 2012/13 Annual Audit Plan.
- 1.2 The Consortium has been operating in line with the CIPFA Code of Practice for Internal Audit, which required that it reports periodically to the council's "audit committee" on its performance; any key findings that impact on the council's control and risk management arrangements; and recommendations issued.
- 1.3 As previously reported the Public Sector Internal Audit Standards replaced the CIPFA Code of Practice from the 1st April 2013. The Standards introduce stricter mandatory requirements for both the Internal audit team and the council's Audit Committee.
- 1.4 Discussion has taken place with the Chairman of the committee regarding how Internal Audit Performance reports could be improved to address the needs of the Audit Committee.

2 Requirements of the Committee as an 'Audit Committee'

- 2.1 Whilst reviewing reports from Internal Audit the committee is acting as the council's Audit Committee.
- 2.2 The newly introduced Public Sector Internal Audit Standards require that 'The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed and requested by senior management and the board'.

3 Report format and Content

- 3.1 Previously performance reports from Internal Audit were presented in a historically agreed format which focussed on the performance of Internal Audit but not on risk and control issues which may have been highlighted in the course of Internal Audit's work.
- 3.2 This was discussed with the Chair of the committee at a separate meeting and it was decided that it was appropriate to include assurance ratings of completed audit assignments in each performance report to allow the

WELLAND INTERNAL AUDIT CONSORTIUM

East Northamptonshire Council



Appendix 1 to Item 6c Scrutiny Committee 3 April 2013

committee to better understand if there were any risk or control issues that the committee may want further detail or assurance on.

- 3.3 Appendix A to the report now shows the status of each audit in the annual audit plan in terms of progress, which relates to the performance of the Internal Audit team, and the assurance rating for complete (Final issues) or near to complete audit reports (draft issues), to allow the committee to assess whether there are any areas of concern.
- 3.4 If appropriate, further meetings with the Chair of the committee could take place to discuss how reports could be improved.

4 Progress with Annual Audit Plan – Risk and Control Issues

- 4.1 The Consortium uses five different audit opinions to show the level of assurance that can be given for each audit assignment completed. The opinions relate to the level of assurance that can be given in regards to the effectiveness of controls in place to manage identified risks to objectives.
- 4.2 A brief and simple explanation of the assurance ratings used is given in the table below. It should be noted that the number of recommendations made in the report is not directly proportional to the audit opinion. Instead the materiality and severity of identified issues is taken into account.

Audit Opinion	Explanation
Good	Minor risks have been identified and some recommendations made.
Sound	Some risks have been identified and some recommendations made
Marginal	A number of risks have been identified and changes should be made.
Unsatisfactory	Unacceptable risks have been identified and changes must be made
Unsound	Major risks exist and fundamental improvements are required.

WELLAND INTERNAL AUDIT CONSORTIUM

East Northamptonshire Council



Appendix 1 to Item 6c Scrutiny Committee 3 April 2013

- 4.2 Appendix A shows that all audits which are either at draft report stage or final report stage to date in 2012/13 have achieved a 'Sound' or 'Good' audit opinion.

No significant control weaknesses have been identified in the course of 2012/13 work completed, which need to be highlighted to the committee.

5 Progress with Annual Audit Plan – Internal Audit Performance

- 5.1 As previously reported the Annual Plan calls for the delivery of 25 planned audits.

At the date of reporting, as shown in Appendix A, twelve audits had progressed to being issued as final versions. A further audit had been issued as a draft report and the fieldwork for another two have been completed and so will be issued as draft by the committee meeting date. The fieldwork has been started on a further five audits and the Terms of Reference has been issued for the remaining audit.

Four audits were agreed to be cancelled during the year as they were either no longer relevant e.g. the planned audit of Development Control was cancelled as localised rules which the audit was planned to focus on were not introduced; or because the timings of the audits were not convenient to the teams involved as they dealt with other issues e.g. Asset Management & Maintenance.

- 5.2 The Consortium had delivered around 160 audit days by the end of week 48 working solely on 2012/13 work. This is around 70% of the 230 days commissioned. A further 60 days were spent in year completing the 2011/12 plan, due to earlier staff shortages, meaning that up to week 48 the council has received 220 audit days.

Although the Consortium has experienced long term staffing vacancies, it has been fully staffed from the 2nd January and it is now in an extremely strong position in terms of completion of the Annual Plan and delivery of days. The Consortium will continue to deliver days to complete the work outlined above and sufficient work will be completed to deliver the annual audit opinion for 2012/13.

WELLAND INTERNAL AUDIT CONSORTIUM

East Northamptonshire Council



Appendix 1 to Item 6c Scrutiny Committee 3 April 2013

6 Summary of Internal Audit Performance

6.1 Table 1 below provides an overview of the Consortium's performance up to the end of week 48 (1st March 2013) using selected Key Lines of Enquiry. It is considered that these key areas provide Members with a basis for effective scrutiny of Internal Audit and they have been applied consistently over time across all client sites.

TABLE 1

Key line of Enquiry		Available Evidence
Performance of the Consortium		
✓	Will the Audit Plan be delivered in full?	All assignments that have been agreed to be carried out will be completed
✓	Are audits being delivered on time and to budget?	Targets are being met for delivery on time and within budget.
✓	Is staff productivity satisfactory? Time spent on productive work as a % of time available. <i>Productive work = planned audits and consultancy work.</i> <i>Time available = 260 days per auditor per year, less annual leave, sickness and professional training.</i>	Productivity across the Consortium team is currently at 80% against the target of 88%. The impact of the restructuring exercise has meant that the target has not been achieved due to increased management time spent on job evaluation, job descriptions and staff consultation. Individual performance of auditors has been at or near target for productivity and the team average is likely to improve further now the restructure has been completed and staff become more experienced. It is anticipated that the Consortium will set a target of 90% for next year.
✓	Is the quality of work of a sufficiently high standard?	The Welland Board has consistently reported that the quality of the internal audit service provided by the Consortium is significantly better than the service received before September 2006 by in-house provision. Following an Audit Commission review of the extent of the Consortium's compliance with the CIPFA Code of Practice in March 2010, action has been taken to achieve full compliance with the Code of Practice.

WELLAND INTERNAL AUDIT CONSORTIUM

East Northamptonshire Council



Appendix 1 to Item 6c Scrutiny Committee 3 April 2013

Key line of Enquiry		Available Evidence
✓	Is the Consortium satisfying clients' needs & expectations?	Client satisfaction is currently 3.66 against a target of 3.5.
The Control Environment		
✓	Do the completed audits provide assurance that the Council has made appropriate and effective arrangements to manage its key risks?	Work completed to the date of the report has not identified any material issues of concern.
Implementing Recommendations		
✓	Are effective arrangements in place to ensure that managers respond to the agreed audit recommendations for which they are responsible in a timely manner?	<p>All managers agree the action for each recommendation prior to the issue of the final report. Significant effort is made by the auditors to produce SMART recommendations, including a target date for implementation. The Internal Audit database (Galileo) is used to track and follow up recommendations.</p> <p>The Council's Performance Clinics provide assurance that all agreed audit recommendations are addressed on a timely basis.</p> <p>The most recent report showed 51 outstanding recommendations of which 13 were slightly overdue: Ongoing follow up work alongside liaison with the Performance Officer is taking place to address outstanding recommendations and identify those which have now been completed.</p>

Item 6c - Appendix A – Progress against Annual Audit Plan 2012/13

Progress Against Audit Plan 2012/13			
Planned Audits	Budget	Progress	Assurance Rating
Financial Systems	90		
Benefits	20	Final Report Issued	Good
Creditors	12	Field Work Complete	
Main Accounting System	10	Field Work Started	
Local Taxes	10	Final Report Issued	Good
Budgeting & Budgetary Control	8	Field Work Started	
Cash & Banking	8	Field Work Completed	
Debtors	7	Fieldwork Started	
Payroll & Employee Benefits	5	Final Report Issued	Good
Fixed Assets	5	Draft Report Issued	Good
Treasury Management	5	Final Report Issued	Sound
Other Financial Systems	10		
Medium Term Financial Planning	5	Final Report Issued	Sound
Accounting for Tax	5	Field Work Started	
Counter Fraud Work	15		
Protecting the Public Purse	15	ToR Agreed	
CORPRORATE ICT	20		
Wed Transactions	6	Final Report Issued	Sound
Data Security	7	Final Report Issued	Sound
Business Continuity	7	Final Report Issued	Sound
Governance & Performance	40		
Corporate Health & Safety	8	Final Report Issued	N/A – Completed as Consultancy Work
Emergency Planning	7	Final Report Issued	
Recruitment, Retention & Redeployment	7	Final Report Issued	Sound
Performance Monitoring & Management	8	Final Report Issued	Good
Asset Management & Maintenance	10	Cancelled	
Customer Facing	45		
Provision of Leisure Opportunities	14	Field Work Started	
Economic Development, Planning & Regeneration Regeneration	8	Cancelled	
Development Control	15	Cancelled	
Elections & Electoral Registration	8	Cancelled	
Client Liason / Committee Preperation & Attendance / Follow Up Work	10	N/A	
Total Days	230		