



East
Northamptonshire
Council

Scrutiny Committee – 23rd September 2013

Welland Internal Audit Consortium – Internal Audit Update 2013/14

Purpose of report:

To provide Members with information on the progress made by the Consortium on the delivery of the Annual Audit Plan for 2013/14 and associated measures of performance.

Attachment(s)

Appendix A: Detailed Progress Report for 2013/14 to week 20

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 2013/14 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.

2.0 Progress with the Annual Audit Plan

- 2.1 Appendix A includes information on the progress of audit 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 20 (i.e. 16th August 2013) the latest date practical for reporting to this Committee.
- 2.2. No areas of significant risk or control weaknesses have been identified in work completed to date.

3.0 Key Issues

- 3.1 Following the review of the Effectiveness of Internal Audit, work is underway to address recommendations made. Work will focus on improvement of processes; training and development of staff; and training of 'Audit Committees' where appropriate. Such work will require management resources and may lead to over runs on audit assignment as more junior members of staff are trained in different audit areas. However Audit Contractors will be utilised again this year to top up to the level of resources required.

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

8.1 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 Recommendations

9.1 (1) The Committee is recommended to note the progress and performance of the Consortium.

(2) The Committee gives its view on the clarity and detail of Appendix A as a means of supporting the "Audit Committee" role

(Reason – To demonstrate that the Committee is discharging its responsibilities in conformance with the Public Sector Internal Audit Standards).

Legal	Power:				
	Other considerations:				
Background Papers: None					
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Date: 30 th August 2013					
CFO		MO		CX	

(Committee Report Normal Rev. 22)



EAST NORTHAMPTONSHIRE COUNCIL
INTERNAL AUDIT UPDATE
SEPTEMBER 2013

Date: 23rd September 2013

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 2013/14 Annual Audit Plan.
- 1.2 The Public Sector Internal Audit Standards require the Council's "Audit Committee" to scrutinise more rigorously the performance of the Internal Audit Team. This report aims to provide the committee with the information that it requires for this purpose.
- 1.3 This report updates the committee on both the progress and performance of the Welland Internal Audit Consortium for 2013/14 and outlines information to assist the committee in carrying out its role as the council's 'Audit Committee'. This is intended to support the move towards full conformity with the Standards.

Progress with the Annual Audit Plan & Internal Audit Performance

- 2.1 At the date of reporting two audits have been issued as final versions: Licensing Partnership Arrangements & Shared Assurance and Waste Management Contract. The Draft report for New Local Tax Arrangements has been issued and the fieldwork for three audits has been started: New Benefits Arrangements, Data Management and Constitutional & Governance Arrangements. Terms of Reference have been issued for a further three audits and start dates agreed with client Officers. A meeting has been arranged for September to scope and agree the start times of the remaining financial audits. Further meetings to schedule the remaining audits will also take place in the near future.
- 2.2 Relevant Performance Indicators have been developed to provide the committee with additional evidence to assess the performance and effectiveness of the Consortium. Table 1 shows performance against targets as at week 20 (16th August 2013) the latest date practical for reporting to this Committee.
- 2.3 To date, work completed has not highlighted any areas of concern in terms of significant risks or control weaknesses. Appendix 3 identifies 'strengths' and 'areas for improvement' in completed assignments. Where 'areas for improvement' have been highlighted, either actions were already being taken in the service area to address the issue or recommendations were made and agreed at the time the audit report was finalised.
- 2.4 Following on from the Effectiveness Review of Internal Audit, work is underway to address recommendations made. The Team's Audit Managers will be working closely with the Internal Auditors to address training needs and to develop their skills and experience. This, along with the completion of other recommendations made regarding the improvement of processes and training of 'Audit Committees' where appropriate, will require additional management resources. However, as in previous years, Audit Contractors will be used to top up resources and allow required audit days to be delivered.

Table 1 **PERFORMANCE TARGETS 2013/14**

Ref	Indicator	Target	Current Performance
IA1	Chargeable Days	90%	92% @ week 20
IA2	Audits within Budget	90%	0% 2 audits have been finalised. Both overran compared to original budget, however this was due to audits being completed by a relatively inexperienced auditor who required additional support from the Audit Manager
IA3	Audits on Time	90%	100%
IA4	Customer Satisfaction	3.6	3.9
IA5	Delivery of Planned Work	100%	N/A year end indicator
	Delivery of Audit Days	230 days	67 days delivered by week 20 (A further 22 days were delivered in year completing the 2012/13 plan) There are currently no resourcing issues of concern

Appendix 1: Limitations and Responsibilities

Limitations inherent to the internal auditor's work

The Consortium is undertaking a programme of work agreed by the Council's senior managers and approved by the Scrutiny Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that the Consortium are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to the Consortium's attention. As a consequence, the Scrutiny Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to the Consortium's attention

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time that the audit was completed in. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

The Consortium endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

Appendix 2 - Summary of Internal Audit Work Undertaken for 2013/14

Progress Against Audit Plan 2013/14			
Planned Audits	Budget	Progress	Assurance Rating
Financial Systems	90		
New Benefits Arrangements	15	Fieldwork Started	
New Local Tax Arrangements	15	Draft Report Issued	Significant (draft)
Financial Management & Service Planning linkages	20		
Procurement & Creditors	10		
Payroll	10		
Main Accounting System	10		
Debtors	5		
Treasury Management	5		
Counter Fraud Work	5		
Counter Fraud Assurance	5		
Corporate ICT	40		
Physical Security	12	ToR Issued, Testing Plans Completed and Start Dates Agreed.	
Logical Security	12		
Disaster Recovery & Business Continuity	12		
ICT Contingency	4		
Governance & Performance	35		
Constitutional & Governance Arrangements	10	Fieldwork Started	
Data Management	18	Fieldwork Started	
Joint Resilience Partnership – Arrangement Review	7		
Customer Facing	45		
Licensing Partnership Arrangements and Shared Assurance	10	Final Issued	Marginal
Elections Services including Individual Registration	Tbd		
Waste Management Contract	8	Final Issued	Significant
Disabled Facilities Grants	Tbd		
Housing Options	Tbd		
Client Liaison / Committee Preparation & Attendance / Follow Up Work	15	N/A	
Total Days	230		

Appendix 3: Detail of Internal Audit Work completed to date for 2013/14

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
Customer Facing						
Licensing Partnership Arrangements and Shared Assurance	10	14	Review of adequacy of Licensing Partnership Arrangements including: <ul style="list-style-type: none"> • Strategic and Business Planning Processes; • Maintenance of Financial Records; • Software used by the Partnership; • Provision for Partners to share assurance about arrangements. 	August 2013	<p>Strengths Good record keeping. Controls to ensure income is collected for all licenses processed. Regular Board meetings to address all client needs and issues.</p> <p>Areas for Improvement Reconciliation processes to ensure Partner Councils are credited for the correct amount need improving. Functionality of current software is inadequate. Signed contracts need to be obtained for all Partners. Business Planning cycle needs to be improved to allow financial information to be provided to Partners in a timely manner.</p>	Marginal

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
Waste Management Contract	8	11.5	Review of adequacy of new Waste Management Contract arrangements to determine whether: <ul style="list-style-type: none"> • Contractors are performing at an adequate level and delivering required targets; • Contract arrangements are delivering, and are likely to continue delivering target financial savings; • Information is of sufficient quality to ensure supplementary charging is accurate. 	August 2013	<p>Strengths Performance targets have been set in line with best practice and customer needs. Procedures exist to challenge low performance. Performance information is reported to Senior Officers and Members. Contract procedures exist to ensure that Contract costs are restricted and unable to rise. Quality of information recorded and good relationship with Contractor allows the Council to ensure that it is being charged correctly.</p> <p>Areas for Improvement None identified.</p>	Significant

NOTES

Days

Performance shows an overrun in terms of days to complete the assignments. This is due to the audits being completed by a relatively inexperienced auditor who required additional support and explanation from the Audit Manager to complete the assignments. Such support will help with the training and development of more junior members of the team as required by the recommendations made in the Effectiveness Review of Internal Audit.

Assurance Ratings

The range of assurance ratings available in 2013/14 are:

Audit Opinion	Explanation
Significant	There is a sound control framework designed to manage or mitigate risks to the achievement of defined objectives. Testing confirms that the controls are being applied consistently.
Adequate	The control framework is basically sound but <ul style="list-style-type: none">• either there are minor gaps or weaknesses which mean that some risks are not fully managed or mitigated;• or testing provides evidence of non-compliance sufficient to weaken the effect of some controls.
Marginal	The designed framework of controls would, if operated consistently manage or mitigate identified risks but testing demonstrates significant levels of non-compliance with prescribed processes and procedures. Although the designed framework has material limitations, testing provides evidence of consistently high levels of compliance with prescribed processes and procedures.
Limited	There are significant weaknesses in key elements of the control framework which mean that significant risks are not managed or mitigated. Testing demonstrates significant levels of non-compliance with prescribed processes and procedures
No	The controls identified are not sufficient to manage/mitigate identified risks to the achievement of defined objectives. Testing demonstrates high levels of non-compliance with prescribed processes and procedures.

Assurance ratings in the range Significant - Adequate indicate that an acceptable level of internal control has been identified.

Areas for Improvement

The issues identified have been addressed through audit recommendations or corrective action by Managers.

Appendix 4: Range of Assurance for 2013/14

	Financial Risks	ICT Risks	Fraud Risks	Governance Risks	Service Delivery Risks
DAYS ALLOCATED	90	40	5	35	45
COMMITTED	(90)	(40)	(5)	(35)	(18)
BALANCE*	0	0	0	0	27*
	Financial Management & Service Planning Linkages				
	Procurement & Creditors				
	Payroll				
	Main Accounting System				Disabled Facilities Grants
	Debtors	ICT Contingency			Elections Services including Individual Registration
	Treasury Management	Physical Security		Joint Resilience Partnership – Arrangement Review	Housing Options
	New Benefits Arrangements	Logical Security		Constitutional & Governance Arrangements	Waste Management Contract Rating = Significant Assurance
	New Local Tax Arrangements	Disaster Recovery & Business Continuity	Counter Fraud Assurance	Data Management	Licensing Partnership Arrangements and Shared Assurance Rating = Marginal Assurance

Notes

The purpose of the table is to provide Members with a clear representation of the extent to which available audit days have been committed. It is intended that this would support the committee should it receive requests for modifications to the approved Audit Plan.

Balance * - this is the days not yet allocated to an audit assignment. The remaining audits without a budget (see Appendix 2) will have their budget set at terms of reference stage.

Audit Assignments shaded  are at the Terms of Reference stage – there is a clear understanding of the assurance to be delivered and audit days required.

Audit Assignments shaded  are those where field work has begun in line with agreed Terms of Reference

Audit Assignments shaded  are those where the draft report has been issued

Audit Assignments shaded  are those where the final report has been issued