



Governance & Audit Committee – 24th March 2014

Welland Internal Audit Consortium – Internal Audit Plan & Performance 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 48

1.0 Background

- 1.1 The Welland Internal Audit Consortium provides the Internal Audit service for East Northamptonshire Council and is required 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 48 (i.e. 28th February 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 The Consortium was subject to an Effectiveness Review in June 2013 to determine the extent of conformity with the Public Sector Internal Audit Standards, which were introduced in April 2013. An Improvement Plan was agreed and has been substantially completed during the second half of 2013/14.
- 3.2 The Standards and the Improvement Plan require the development of a Training Programme for the Members acting as the council's 'Audit Committee'. It was agreed during 2013/14 to postpone such training due to proposed changes to the council's committee structure. A programme of training is now being developed and will be delivered to the Governance and Audit Committee during 2014/15.

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

(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: 7th March 2014					
CFO		MO		CX	

(Committee Report Normal Rev. 22)



EAST NORTHAMPTONSHIRE COUNCIL
INTERNAL AUDIT PLAN & PERFORMANCE UPDATE
2013/14

MARCH 2014

Date: 24th March 2014

Introduction

- 1.1 The Welland Internal Audit Consortium provides the Internal Audit service for East Northamptonshire council and is required 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 nine audits have been issued as Final Reports and a further seven issued as Draft Reports. One audit has the fieldwork completed and is likely to be at Draft Issue stage by the committee meeting date. Fieldwork has been started on the remaining audit and this assignment will be completed by year end. Full details are shown in Appendix 2 to the report.
- 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 48 (i.e. 28th February 2014) 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 during 2013/14, work has been substantially completed to address recommendations made. The Team's Audit Managers have been working closely with the Internal Auditors to address training needs and to develop their skills and experience. Whilst doing so, Audit Contractors have been used to top up resources and allow required audit days to be delivered.
- 2.5 One outstanding item on the Improvement Plan is to deliver a programme of training to the council's 'Audit Committee'. Due to the proposed changes to the council's committee structure, it was agreed that such training would be postponed during 2013/14. Such a programme is now being developed and will be delivered to the Governance & Audit Committee during 2014/15.

Table 1 PERFORMANCE TARGETS 2013/14			
Ref	Indicator	Target	Current Performance
IA1	Chargeable Days	90%	90% @ week 48
IA2	Audits within Budget	90%	11% Nine audits have been finalised. Eight overran compared to original budget – although two overran by only one day each. Overruns have been due to either relatively inexperienced auditors who required additional support in new audit areas or because auditors required more time to implement the new audit approach following the implementation of the Improvement Plan.
IA3	Audits on Time	90%	78% Seven of the nine audits finalised were done so on time. Of the other two, one was delayed due to the auditor's other work commitments and one was delayed due to the auditor who was carrying out the audit, leaving before the audit was completed.
IA4	Customer Satisfaction	3.6	3.9
IA5	Delivery of Planned Work	100%	N/A year end indicator
	Delivery of Audit Days	230 days	243 days delivered by week 48 There has been a slight overrun on days to complete the plan due to additional staff training required. There is no additional cost for this overrun.

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 'Audit' 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 'Audit' 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			
New Benefits Arrangements	20	Final Issued	Substantial
New Local Tax Arrangements	15	Final Issued	Substantial
Financial Management	20	Fieldwork Started	
Procurement & Creditors	10	Draft Report Issued	
Payroll	10	Final Issued	Substantial
Debtors	5	Draft Report Issued	
Treasury Management	5	Draft Report Issued	
Main Accounting System	10	Draft Report Issued	
Counter Fraud Work			
Counter Fraud Assurance	5	Fieldwork Completed	
Corporate ICT			
Physical Security	12	Draft Report Issued	
Logical Security	12	Draft Report Issued	
Disaster Recovery & Business Continuity	12	Draft Report Issued	
ICT Contingency	4	Cancelled	N/A
Governance & Performance			
Constitutional & Governance Arrangements	10	Final Issued	Sufficient
Data Management	18	Final Issued	Sufficient
Joint Resilience Partnership – Arrangement Review	7	Final Issued	N/A – Consultancy Review
Customer Facing			
Licensing Partnership Arrangements and Shared Assurance	10	Final Issued	Limited
Elections Services including Individual Registration	N/A	Cancelled	N/A
Waste Management Contract	8	Final Issued	Substantial
Disabled Facilities Grants	5	ToR Issued	Limited
Housing Options	N/A	Cancelled	N/A
Client Liaison / Committee Preparation & Attendance / Follow Up			
	15	N/A	
Training & Development of Staff			
	12		
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				
Financial						
New Benefits Arrangements	20	23	Review of arrangements for processing Benefits Claims, focussing on; <ul style="list-style-type: none"> • Claims being processed correctly and in a timely manner; • Changes in terms of Benefits Caps and Under Occupancy rules. 	January 2014	Strengths Timely and consistent verification and assessment of Housing Benefit and Council Tax Support applications. Areas for Improvement None identified.	Substantial
New Local Tax Arrangements	15	23	Review of Local Taxation arrangements including requirements of the Welfare Reform, focussing on: <ul style="list-style-type: none"> • Timely and accurate billing; • Effective collection of income and recovery of debts; • Strategic monitoring and planning. 	September 2013	Strengths Appropriate control framework for accurate billing and application of discounts, disregards and reliefs. Satisfactory arrangements for income collection and recovery action. Evidence of monitoring new arrangements during 2013/14 and strategic planning for 2014/15. Areas for Improvement None identified.	Substantial
Payroll	10	13	Review of arrangements to ensure that risks of fraud and error are mitigated in Payroll transactions.	February 2014	Strengths Sound framework of controls to mitigate risks of fraud and error in payments. Areas for Improvement Evidence to support eligibility for claims (Business Insurance) and for evidencing claim amounts (Broadband) could be improved.	Substantial

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
Governance & Performance						
Constitutional & Governance Arrangements	10	11	Review of Constitution for consistency in Decision making, Scrutiny and Committee responsibilities.	December 2013	<p>Strengths Appropriate arrangements to identify required changes in a timely manner and take appropriate action</p> <p>Areas for Improvement Some inconsistencies identified which have subsequently been corrected.</p>	Sufficient Assurance
Data Management	18	22	Review of arrangements to effectively manage data at the council – including appropriate storage, retention and disposal.	February 2014	<p>Strengths Comprehensive suite of training and guidance in place. Officer assigned responsibility for update of such guidance.</p> <p>Areas for Improvement Some gaps in Officer knowledge identified. Security of paper documents could be improved.</p>	Sufficient Assurance
Joint Resilience Partnership – Arrangement Review	7	4	Review of completion of Action Plans resulting from Health & Safety and Emergency Planning Audits carried out in 2012/13.	December 2013	<p>Strengths All recommendations either have been addressed or are currently being addressed.</p> <p>Areas for Improvement Attendance at training sessions needs to be improved</p>	N/A – Consultancy Review

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 and 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>	Limited
Waste Management Contract	8	11	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 	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</p>	Significant

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
			savings; <ul style="list-style-type: none"> Information is of sufficient quality to ensure supplementary charging is accurate. 		Council to ensure that it is being charged correctly. Areas for Improvement None identified.	
Disabled Facilities Grants	5	6	Review of arrangements to process and pay Contractor invoices relating to work funded by Disabled Facilities Grants.	February 2014	Strengths Officers ensure that work carried out is satisfactory prior to payment. Areas for Improvement Design of processes result in delays in paying invoices which could result in penalties for late payment. This will be corrected in process design when new contract awarded.	Limited

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 auditors who required additional support and explanation from the Audit Manager to complete the assignments or due to auditors having to be trained in new working approach, introduced after the Effectiveness Review.

Assurance Ratings

Assurance ratings to be awarded have been agreed by the Welland Board as Substantial, Sufficient, Limited and No Assurance and the audits noted above were given assurance ratings in line with those requirements.

Audit Opinion	Design of Control Framework	Compliance with Controls
Substantial	There is a robust framework of controls making it likely that service objectives will be delivered.	Controls are applied continuously and consistently with only infrequent minor lapses.
Sufficient	The control framework includes key controls that promote the delivery of service objectives.	Controls are applied but there are lapses and/or inconsistencies.
Limited	There is a risk that objectives will not be achieved due to the absence of key internal controls.	There have been significant and extensive breakdowns in the application of key controls.
No	There is an absence of basic controls which results in inability to deliver service objectives.	The fundamental controls are not being operated or complied with.

Assurance ratings in the range Substantial - Sufficient 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	95	40	5	35	28
	Financial Management				
	Procurement & Creditors				
	Payroll				
	Rating = Substantial Assurance				
	Main Accounting System				Disabled Facilities Grants Rating = Limited Assurance
	Debtors	ICT Contingency			Elections Services including Individual Registration
	Treasury Management	Physical Security		Joint Resilience Partnership – Arrangement Review N/A	Housing Options
	New Benefits Arrangements	Logical Security		Constitutional & Governance Arrangements	Waste Management Contract
	Rating = Substantial Assurance			Rating = Sufficient Assurance	Rating = Substantial Assurance
	New Local Tax Arrangements	Disaster Recovery & Business Continuity	Counter Fraud Assurance	Data Management	Licensing Partnership Arrangements and Shared Assurance
	Rating = Substantial Assurance			Rating = Sufficient Assurance	Rating = Limited 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.

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

Audit Assignments shaded  have been cancelled - following proposals by client Officers due to changes in circumstances and agreement of the Scrutiny committee