



Governance & Audit Committee – 9 July 2014

Welland Internal Audit Consortium – Annual Report of Internal Audit 2013/14

Purpose of report:

To inform Members of the work completed by the council's Internal Auditors during 2013/14 and to provide Members with an Audit Opinion on the council's system of internal control, risk management arrangements and its governance arrangements. The report also seeks to inform members on the effectiveness of the Internal Audit function.

Attachment(s)

Appendix A: Annual Report of Internal Audit 2013/14

1.0 Background

1.1 The Public Sector Internal Audit Standards (The Standards) require the Head of the Welland Internal Audit Consortium to produce an Annual Report of Internal Audit. The report must contain an Internal Audit Opinion on the effectiveness of the Council's internal control arrangements and a statement on the extent of the Consortium's conformance to the Standards

2.0 Internal Audit Opinion

2.1 It is the Opinion of the Head of Consortium that the Council's internal control arrangements provide a Sufficient Level of Assurance. The basis for that Opinion is set out in the Annual Report of Internal Audit shown as Appendix A.

3.0 Performance and Effectiveness of Internal Audit

3.1 The Head of Consortium has undertaken a self-assessment and concluded that the Consortium now operates in general conformance to the Public Sector Internal Audit Standards. The basis for that conclusion is also set out in the Annual Report.

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 (1) Note the Internal Audit Opinion issued by the Head of Consortium
(2) Note the reported progress and effectiveness of the Consortium in 2013/14

(Reason - Consistency with previous decisions.)

Legal	Power:				
	Other considerations:				
Background Papers: None					
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Date: 16 th June 2014					
CFO		MO		CX	

(Committee Report Normal Rev. 22)



EAST NORTHAMPTONSHIRE COUNCIL
ANNUAL REPORT OF INTERNAL AUDIT
2013 -14

Date: 9th July 2014

Background

1. The Public Sector Internal Audit Standards (The Standards) require the Head of the Welland Internal Audit Consortium to provide an annual report to the Governance & Audit Committee. The Standards also specify that the report must contain:

- an internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
- a summary of the audit work from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
- a statement on the extent of conformance with the Standards including progress against the improvement plan resulting from any external assessments.

Internal Audit Opinion 2013/14

2. It is the Opinion of the Head of the Welland Internal Audit Consortium that **Sufficient Assurance** can be taken from the Council's control environment. That Opinion reflects the levels of assurance for individual audit assignments.

3. During 2013/14 planned Internal Audit work was undertaken to provide assurance about all aspects of the council's activities, specifically:

- Key Financial Systems;
- Other Financial Systems;
- ICT;
- Governance & Performance;
- Counter-Fraud Arrangements; and
- Customer-Facing Services.

4. Appendix 2 provides a summary of work undertaken and the Audit Opinion associated with each completed audit.

Effectiveness of Internal Audit – Conformance with the Public Sector Internal Audit Standards

5. The Welland Internal Audit Board commissioned RSM Tenon to carry out an external review in June 2013. The review made use of the Checklist for Assessing Conformance with the PSIAS developed by CIPFA and concluded that the Consortium did not conform to the Standards in a number of areas. The results of the review were reported to the Scrutiny Committee in December 2013.

6. In conformance with the Standards, an Improvement Plan was developed to address the issues identified by the review and delivery of the Plan has been subject to oversight and scrutiny by the Welland Internal Audit Board. The Improvement Plan was also reported to the Scrutiny Committee in December.

7. The Head of Consortium was able to report to the Board at its last meeting, in May 2014, that the Improvement Plan had been substantially completed. The Board subsequently determined that the single material issue outstanding, the delivery of a review of the impact of the Plan's implementation on the quality of individual audit assignments, should be deferred until the new Head of Consortium is in post and has the opportunity to design an appropriate framework of quality metrics.

8. The Head of Consortium has undertaken an end-of-year self assessment of the extent of conformance to the Standards. The approach taken was to assess the extent to which the Improvement Plan had addressed the aspects of non-conformance and partial conformance identified in the RSM Tenon report. The results of the self-assessment are shown in Appendix 3 where the Head of Consortium has summarised the actions taken to achieve a position of "general conformance".

9. It is the opinion of the Head of Consortium that the Consortium now operates in **general conformance** to the Standards.

Appendix 1: Limitations and Responsibilities

Limitations inherent to the internal auditor's work

The Consortium has prepared the Annual Report of Internal Audit and undertaken a programme of work agreed by the council's senior managers and approved by the Scrutiny committee subject to the limitations outlined below.

Opinion

The Opinion is based, primarily, on work undertaken as part of the agreed 2013/14 Audit Plan. Each audit assignment undertaken addressed the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work; were excluded from the scope of individual internal assignments; or were not brought to our attention. As a consequence, the Governance & Audit committee should be aware that the Opinion might have differed if our programme of work, or the scope of individual assignments was extended or other relevant matters were brought to our attention

Internal Control

Internal control systems, 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

Our assessment of the council's control framework is for the year ended 31st March 2014. This historic 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 our 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

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; and • 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 the requirements of Welfare Reform, focussing on: <ul style="list-style-type: none"> • Timely and accurate billing; • Effective collection of income and recovery of debts; and • 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
Consultancy Review Financial Responsibilities of Non Finance Staff	20	10	Review to determine the extent that Managers outside of the Finance Team understand their Financial Management responsibilities	June 2014	Strengths Experienced Finance Team, available to support non-finance staff. Areas for Improvement Guidance, training and support could be improved to help non-finance staff to understand their responsibilities.	N/A – Consultancy Review

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
Procurement & Creditors	10	11	Review of arrangements to ensure that error, fraud or corruption does not occur, resulting in inappropriate payments. Also that there are sufficient resources to deliver required service level	March 2014	<p>Strengths Clear guidance. Sufficient controls to identify and resolve variations and detect duplications in payments. Sufficient staff coverage to ensure service delivery</p> <p>Areas for Improvement Procedures to process requests to change supplier details require formalisation. Need to improve the amount of Purchase Orders raised prior to placing orders.</p>	Sufficient Assurance
Debtors	5	5	Review of arrangements to ensure that all debts owed to the Council are collected. Also that there are sufficient resources to deliver required service level	March 2014	<p>Strengths There are sound, established processes in place to raise Debtor Invoices in a timely manner and to issue reminders for those which are overdue. Sufficient staff coverage to ensure service delivery</p> <p>Areas for Improvement Service areas could better support financial services in the recovery of overdue debt.</p>	Sufficient Assurance
Treasury Management	5	10	Assurance required that only appropriate investments are made, fraudulent transactions do not take place and the Council achieves the interest rates required	March 2014	<p>Strengths Adequate arrangements to ensure that Investments are made with approved counterparties only, within counterparty limits, are authorised, are repaid on time and that agreed level of interest is received.</p> <p>Areas for Improvement Job titles on Fidelity Guarantee required updating</p>	Substantial Assurance

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
Main Accounting System	10	7	Assurance required by the Council's external auditors regarding the completion of Bank Reconciliations and processing of Journals	April 2014	<p>Strengths Established procedures for Bank Reconciliations including full documentation and appropriate arrangements to cover staff absence. Testing confirmed that Journals were being processed in line with procedures described.</p> <p>Areas for Improvement None identified.</p>	Sufficient Assurance
Payroll	10	13	Review of arrangements to ensure that risks of fraud and error are mitigated in Payroll transactions.	February 2014	<p>Strengths Sound framework of controls to mitigate risks of fraud and error in payments.</p> <p>Areas for Improvement Evidence to support eligibility for claims (Business Insurance) and for evidencing claim amounts (Broadband) could be improved.</p>	Substantial Assurance
IT						
Physical Security	12	7	Review of arrangements to prevent damage or destruction occurring to the Council's IT equipment which could lead to disruption to service provision or loss of data.	March 2014	<p>Strengths Arrangements in place to ensure that employees are aware of their responsibilities regarding the security of data and physical assets. Sufficient procedures for the management and maintenance of an asset register.</p> <p>Areas for Improvement Fire protection controls required in the server rooms.</p>	Limited Assurance
Logical Security	12	7	Assurance required that data held by the Council could not be accidentally or maliciously lost, amended or stolen.	March 2014	<p>Strengths Comprehensive suite of Policies. Adequate password controls. Sufficient virus protection.</p> <p>Areas for Improvement</p>	Sufficient Assurance

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
					Controls to restrict access to the Council's network following a period of inactivity were planned but had not yet been implemented.	
Disaster Recovery & Business Continuity	12	9	Review of arrangements in place to ensure the Council could continue to function or recover its IT systems following a major incident	March 2014	<p>Strengths Shared service arrangement has allowed for the identification of an adequate disaster recovery site. Clear procedures for the management of backups Appropriate ICT Disaster Recovery Plan</p> <p>Areas for Improvement Current Business Continuity Plan does not comply with best practice guidelines, however work was underway to address this issue</p>	Sufficient Assurance
Fraud						
Counter Fraud Assurance	5	2	Review of Fraud Controls in the Local Taxation, Treasury Management, Creditors & Procurement and Payroll systems	April 2014	<p>Strengths Adequate framework of controls identified during the financial audits to mitigate the risk of fraud.</p> <p>Areas for Improvement None identified.</p>	Substantial Assurance
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

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
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
Customer Facing						
Licensing Partnership Arrangements and Shared Assurance	10	14	<p>Review of adequacy of Licensing Partnership Arrangements including:</p> <ul style="list-style-type: none"> • Strategic and Business Planning Processes; • Maintenance of Financial Records; • Software used by the Partnership; and • 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 Assurance

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
Waste Management Contract	8	1 1	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	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. Areas for Improvement None identified.	Substantial Assurance
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 Assurance

NOTES

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 3: Summary of Conformance with the Public Sector Internal Audit Standards.

Note – Comments have been provided to explain action taken to correct Partial or Non Conformance.

Attribute Standard		Extent of Conformance		Comments
		RSM Tenon	Self Assessed	
1000	Purpose, Authority and Responsibility	Partially Conforms	Generally Conforms	Action was required to achieve conformance was the adoption of an Audit Charter that reflected, fully, the requirements of the Standards. A revised Audit Charter was approved by the Scrutiny Committee in December 2013.
1010	Recognition of the definition of Internal Audit	Generally Conforms	Generally Conforms	
1100	Independence and Objectivity	Generally Conforms	Generally Conforms	
1110	Organisational Independence	Generally Conforms	Generally Conforms	
1111	Direct Interaction with the Board	Generally Conforms	Generally Conforms	
1120	Individual Objectivity	Generally Conforms	Generally Conforms	
1130	Impairment to Independence or Objectivity	Generally Conforms	Generally Conforms	
1200	Proficiency and Due Professional Care	Generally Conforms	Generally Conforms	
1210	Proficiency	Generally Conforms	Generally Conforms	
1220	Due Professional Care	Generally Conforms	Generally Conforms	
1230	Continuing Professional Development	Generally Conforms	Generally Conforms	
1300	Quality Assurance and Improvement Programme	Generally Conforms	Generally Conforms	

Attribute Standard		Extent of Conformance		Comments
1310	Requirements of the Quality Assurance and Improvement Programme	Generally Conforms	Generally Conforms	
1311	Internal Assessments	Generally Conforms	Generally Conforms	
1312	External Assessments	Generally Conforms	Generally Conforms	
1320	Reporting on the Quality Assurance and Improvement Programme	Not Applicable	Generally Conforms	The results of RSM Tenon review were reported to the Scrutiny Committee in December 2013 and at the same meeting the Committee noted the Improvement Plan developed in response to RSM Tenon's findings. The Committee subsequently received reports on progress against the Improvement Plan.
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	Generally Conforms	Generally Conforms	
1322	Disclosure of Non-conformance	Generally Conforms	Generally Conforms	
2000	Managing the Internal Audit Activity			
2010	Planning	Partially Conforms	Generally Conforms	The Internal Audit Protocol now provides an appropriate framework for proper engagement of the Council's senior management in the development of risk-based Annual Plans.
2020	Communication and Approval	Partially Conforms	Generally Conforms	At the March 2014 meeting, Committee endorsed a recommendation that the Chair be given delegated authority to approve changes to the Annual Plan. This, together with established arrangements to report modifications to the Plan, addressed all issues of incomplete conformance.
2030	Resource Management	DOES NOT CONFORM	Generally Conforms	The Welland Board has taken steps to ensure that the Consortium has the right mix of staffing resources to deliver an internal audit service in conformance to the Standards. Two additional, professionally qualified and experienced Audit Managers have been appointed.

Attribute Standard		Extent of Conformance		Comments
2040	Policies and Procedures	Partially Conforms	Generally Conforms	A revised Audit Manual has been produced. The Manual sets out the policies, procedures and processes that have been developed to ensure that the Consortium operates in conformance to the Standards.
2050	Coordination	Partially Conforms	Generally Conforms	The Head of Consortium shares information with the Council's External Auditor as requested and there is some limited flow of information from the External Auditor.
2060	Reporting to Senior Management and the Board	Generally Conforms	Generally Conforms	
2070	External Service Provider and Organisational Responsibility for Internal Audit	Not Applicable	Not Applicable	
2100	Nature of Work			
2110	Governance	Generally Conforms	Generally Conforms	
2120	Risk Management	Generally Conforms	Generally Conforms	
2130	Control	Generally Conforms	Generally Conforms	
2200	Engagement Planning			
2201	Planning Considerations	Partially Conforms	Generally Conforms	The Internal Audit Protocol provides an effective framework for engagement with clients to design individual risk-based audit assignments. The process for capturing and recording clients' requirements; and for defining the scope of each assignment is set out in the Audit Manual.
2210	Engagement Objectives	Partially Conforms	Generally Conforms	
2220	Engagement Scope	Partially Conforms	Generally Conforms	
2230	Engagement Resource Allocation	DOES NOT CONFORM	Generally Conforms	The Welland Board has taken steps to ensure that the Consortium has the right mix of staffing resources to deliver an internal audit service in conformance to the Standards. Two additional, professionally qualified and experienced Audit Managers have been appointed.

Attribute Standard		Extent of Conformance		Comments
2240	Engagement Work Programme	Partially Conforms	Generally Conforms	Testing schedules are developed by Audit Managers prior to the start of each assignment. As part of the Quality Assurance process, all testing schedules are reviewed by a second Audit Manager.
2300	Performing the Engagement			
2310	Identifying Information	Generally Conforms	Generally Conforms	
2320	Analysis and Evaluation	Partially Conforms	Generally Conforms	The conduct of each assignment is subject to a two-stage review process. The Auditor's analysis and evaluation of the control framework is reviewed by the responsible Audit Manager before the programme of substantive and compliance testing is developed. The adequacy of evidence documented to support the Auditor's conclusions and recommendations is reviewed by the Audit Manager before the Discussion Draft is issued.
2330	Documenting Information	Partially Conforms	Generally Conforms	
2340	Engagement Supervision	Partially Conforms	Generally Conforms	
2400	Communicating Results			
2410	Criteria for Communicating	Generally Conforms	Generally Conforms	
2420	Quality of Communications	Partially Conforms	Generally Conforms	The Audit Protocol sets out a framework to improve the quality of communication with clients. The Protocol acknowledges that there may be circumstances where significant issues need to be reported to Officers without going through normal report-clearing processes. The Protocol also makes clear clients have a responsibility to engage in the report clearance process to ensure that reports are accurate and that the Auditor's conclusions are valid. The reporting process has also been redesigned. The Executive Report is designed to meet the requirements for clear and concise reporting while the Discussion Draft is a tool to support effective client engagement in the report clearance.
2421	Errors and Omissions	Generally Conforms	Generally Conforms	
2430	Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal	Not Applicable	Generally Conforms	The Head of Consortium will report explicitly on conformance with the Standards in the Annual Report of Internal Audit. Should circumstances arise where significant non-conformance became an issue in an assignment or in the wider operation of the Consortium, there are provisions for reporting to the Chief

Attribute Standard		Extent of Conformance		Comments
	Auditing”			Finance Officer.
2431	Engagement Disclosure of Non-conformance	Generally Conforms	Generally Conforms	
2440	Disseminating Results	Partially Conforms	Generally Conforms	The Internal Audit Protocol codifies the requirement for the responsible Officer to approve the wider publication of Executive Reports. Arrangements are in place to ensure that reports are made available to relevant Senior Managers and Members.
2450	Overall Opinions	Generally Conforms	Generally Conforms	
2500	Monitoring Progress	Partially Conforms	Generally Conforms	The Internal Audit Protocol makes clear that it is the client’s responsibility to ensure, before accepting an Audit Recommendation, that there is the capacity in place to implement the Recommendation. The Protocol also confirms that the client is responsible for implementing agreed Recommendations or explaining why implementation is delayed or incomplete. The Consortium supports clients by providing regular reports on Outstanding Recommendations.
2600	Communicating the Acceptance of Risks	Generally Conforms	Generally Conforms	

Note: Guidance on Conformance Ratings

Generally Conforms to PSIAS. The relevant structures, policies and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section /category. General conformance does not require complete / perfect conformance, the ideal situation, successful practice, etc.

Partially Conforms to PSIAS. The activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and / or achieving their objectives.

Does Not Conform to PSIAS. The activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many / all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.