



## **Governance & Audit Committee – 2 February 2015**

### **Welland Internal Audit Consortium – Internal Audit Plan & Performance Update 2014/15**

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#### **Purpose of report:**

To provide Members with information on the progress made by the Consortium on the delivery of the Annual Internal Audit Plan for 2014/15 and associated measures of performance.

#### **Attachment(s)**

Appendix A: Detailed Progress Report for 2014/15 to week 41.

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#### **1.0 Background**

- 1.1 The Welland Internal Audit Consortium provides the Internal Audit service for East Northamptonshire council and is commissioned to provide 230 audit days to deliver the 2014/15 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 provides information on the progress made on each of the audit assignments along with performance information for the Welland Internal Audit Consortium. In order to provide Members with the most current performance information the report analyses Internal Audit's performance to the end of week 41 (i.e. 9<sup>th</sup> January 2015) the latest possible date for reporting to this committee meeting.
- 2.2. At the date of reporting, final reports have been issued for nine assignments. A draft report has been issued for one further assignment. Fieldwork is underway on four audits and fieldwork is complete for one audit. The terms of reference have been issued for one further assignment. Timings of the remaining audits have been discussed with the relevant Heads of Service and resources are planned accordingly.

#### **3.0 Key Issues**

- 3.1 As at the end of week 41, the Consortium has delivered 109 of the commissioned 230 audit days. As previously reported, the Welland Board have introduced interim measures to cover the existing Head of Internal Audit vacancy and to provide the resources required by the Consortium. This is in the form of an agreement with LGSS (a shared service arrangement delivered by Cambridgeshire and Northamptonshire County councils) who are contracted to ensure delivery of at least 90% of all audit plans by the end of March 2015.
- 3.2 No areas of significant risk or control weaknesses have been identified in work completed to date.

#### 4.0 Annual Audit Planning 2015/16

4.1 The approach to Audit Planning for 2015/16 was approved at the December Governance and Audit Committee meeting. On this basis, plans are now underway to meet with senior management and discuss the Audit Universe during January and February 2015. A draft plan will then be presented to the Governance and Audit Committee in March 2015 for refinement and approval.

4.2 Members of the Committee may wish to discuss potential topic areas for the 2015/16 Audit Plan at this meeting. Any suggested areas can then be considered further within the development of the plan and discussed during meetings with management.

#### 5.0 Equality and Diversity Implications

5.1 There are no equality and diversity implications arising from the report.

#### 6.0 Legal Implications

6.1 There are no legal implications arising from the report.

#### 7.0 Risk Management

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

#### 8.0 Financial Implications

8.1 There are no financial implications arising from the report

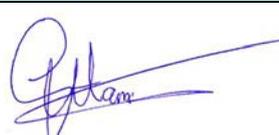
#### 9.0 Corporate Outcomes

9.1 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.

#### 10.0 Recommendations

- 10.1 (1) The committee notes the progress and performance of the Consortium.
- (2) The committee suggests any potential areas for review which they wish to be included in the 2015/16 Audit Plan, annual planning discussion.

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

<b>Legal</b>	Power: It is a statutory requirement for Councils to have an Internal Audit function in accordance with the Local Government Act 1972.				
	Other considerations: Internal audit and the "Audit Committee" should also conform to the relevant professional guidance – the Public Sector Internal Audit Standards.				
<b>Background Papers:</b> None					
<b>Person Originating Report:</b> Nicola Scott, Audit Manager, 07787 860067, nscott@rutland.gov.uk					
<b>Date:</b> 21st January 2015					
<b>CFO</b> 21/1/15		<b>MO</b>		<b>CX</b>	



EAST NORTHAMPTONSHIRE COUNCIL  
INTERNAL AUDIT PLAN & PERFORMANCE UPDATE  
2014/15  
FEBRUARY 2015

Date: 2<sup>nd</sup> February 2015

## ***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 2014/15 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 the progress and performance of the Welland Internal Audit Consortium for 2014/15 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, final reports have been issued for nine assignments. A draft report has been issued for one further assignment. Fieldwork is underway on four audits and fieldwork is complete for one audit. The terms of reference have been issued for one further assignment. Full details are shown in Appendix 2 to the report.
- 2.2 Timings of the remaining audits on the Plan have been discussed with the relevant Heads of Service. Work is due commence on these assignments in accordance with the agreed timings and is under regular review to ensure that this remains achievable and of value to the Council.
- 2.3 As previously reported, the Welland Board have introduced interim measures to cover the existing Head of Internal Audit vacancy and to provide the resources required by the Consortium. This is in the form of an agreement with LGSS who are contracted to ensure delivery of at least 90% of all audit plans by the end of March 2015.
- 2.4 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 41 (i.e. 9<sup>th</sup> January 2015) the latest date practical for reporting to this committee meeting.
- 2.5 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' identified by completed assignments. Where 'areas for improvement' have been highlighted, either actions were already underway within the service area to address the issue or recommendations were made and agreed at the time the audit report was finalised.

## ***Audit Planning 2015/16***

- 3.1 The approach to Audit Planning for 2015/16 was approved at the December Governance and Audit Committee meeting. On this basis, plans are now underway to meet with senior management and discuss the Audit Universe during January and

February 2015. A draft plan will then be presented to the Governance and Audit Committee in March 2015 for refinement and approval.

- 3.2 Members of the Committee may wish to discuss potential topic areas for the 2015/16 Audit Plan at this meeting. Any suggested areas can then be considered further within the development of the plan and discussed during meetings with management.

**Table 1 PERFORMANCE TARGETS 2014/15**

Ref	Indicator	Target	Current Performance
IA1	Chargeable Days (Audit Staff)	90%	83% @ week 41  Performance lower than target due to the implementation of the upgraded internal audit software (Galileo). However, please note this figure does not take into account the Audit Contractors who deliver 100% productive time.
IA2	Audits within Budget	90%	67%  Internal audit is on target to deliver the audit plan within the 230 days budget. Any overruns on individual assignments are managed within the overall budget. Of the six assignments delivered, two exceeded the allocated budget. Extra time was required on both assignments days to ensure that the work covered all requirements of the client officer.
IA3	Audits on Time	90%	100%  There have been no significant delays in completing audits.
IA4	Customer Satisfaction	3.6	3.7  All responses received rate service as "Good" or "Outstanding".
IA5	Delivery of Planned Work	100%	N/A year end indicator
	Delivery of Audit Days	230 days	109 days delivered by end of week 41  Please note this total does not include time worked by LGSS to support the Consortium.

## ***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 2014/15

Progress Against Audit Plan 2014/15			
Planned Audits	Budget	Progress	Assurance Rating
<b>Financial Systems</b>			
Main Accounting, Cash & Banking	85 Days	Field Work Started	
Fixed Assets		Final Report Issued	Substantial Assurance
Creditors		Draft Report Issued	
Debtors		Field Work Complete	
Budgeting & Budgetary Control			
Treasury Management		Field Work Started	
MTFP & Collection Fund		Final Report Issued	Substantial Assurance
Payroll		Final Report Issued	Sufficient Assurance
<b>Counter Fraud Work</b>			
Council Tax & NDR – Fraud	20 Days		
Corporate Counter Fraud Arrangements		Final Report Issued	N/A Consultancy
<b>Corporate ICT</b>			
Internet, Website & E-Mail	10 Days	Final Report Issued	Sufficient Assurance
Legislation		Cancelled	
<b>Customer Facing</b>			
Community Infrastructure Levy – Advisory Work	25 Days	Cancelled	
Licensing Partnership - Follow Up Review		Final Report Issued	Sufficient Assurance
Land Charges		Final Report Issued	Sufficient Assurance
Individual Voter Registration		Field Work Started	
<b>Governance &amp; Performance</b>			
Staffing – Pay & Benefits	55 Days	Final Report Issued	N/A Consultancy
Shared Services & Partnership Arrangements		Field Work Started	
Business Continuity Plan		Cancelled	
Projects and Transformation			
New Risk Management System			
Member Empowerment Fund		Final Report Issued	Sufficient Assurance
Fees & Charges		APR* Issued	
<b>Client Liaison / Committee Preparation &amp; Attendance / Follow</b>			
	20 Days		
<b>Contingency</b>			
	15 Days		
<b>Total Days</b>	<b>230 Days</b>		

\*APR= Audit Planning Record – this document defines the objective and scope of the audit.

**Appendix 3: Detail of Internal Audit Work completed (Final Report Issued) to date for 2014/15**

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
<b>Financial Systems</b>						
Payroll	10 days	11 days	Assurance required that the processes and procedures relating to Payroll are adequate to mitigate the risk of fraud and error.	January 2015	<p><b>Strengths</b> Appropriate procedures for starters, leavers, standard payments and amendments to pay.</p> <p><b>Areas for Improvement</b> Payroll system access controls require further development to reduce the risk of inappropriate or unauthorised access and enforce segregation of duties. Regular reconciliations between the Payroll system and General Ledger not in place. Changes to the employee master file not being independently reviewed to ensure they are appropriate and approved. It needs to be determined whether the Payroll system used can record an "audit trail" of changes made to data by individuals.</p>	Sufficient Assurance
Fixed Assets	10 days	5.5 days	Assurance required that the Fixed Asset Register is accurate and complete.	January 2015	<p><b>Strengths</b> Appropriate procedures in place to identify and record both asset additions and disposals. Procedures surrounding the valuation of assets are sound. Regular reconciliation between the Fixed Asset Register and the General Ledger is taking place. Physical verification of a sample of the council's fixed assets has been carried out.</p> <p><b>Areas for Improvement</b>  None identified</p>	Substantial Assurance

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
Medium Term Financial Planning	15 days	14.5 days	Assurance required that the council's Medium Term Financial Planning processes are adequate.	January 2015	<p><b>Strengths</b> Approach to MTFP refreshed and Members engaged in the process. The council makes use of external and peer reviews. Financial planning integrated with business planning.</p> <p><b>Areas for Improvement</b> MTFP of Council Tax income is currently being reviewed and improved. Opportunity for the council to perform sensitivity analysis on the risks identified within the MTFP.</p>	Substantial Assurance
<b>Counter Fraud Work</b>						
Corporate Counter Fraud Arrangements	5 days	4.5 days	Consultancy assignment requesting advice on the best practice surrounding Corporate Counter Fraud arrangements.	January 2015	<p><b>Consultancy Assignment</b> The Monitoring Officer was provided with best practice guidance regarding Corporate Counter Fraud Arrangements and advice regarding an appropriate structure for the council's Counter Fraud Strategy. An assessment of the council's Counter Fraud arrangements was also undertaken against the CIPFA Code of Practice on managing the risk of fraud and corruption, the most recent best practice guidance, and advice provide on possible areas for improvement.</p>	N/A Consultancy Assignment
<b>Corporate ICT</b>						
Internet, Website & E-mail	10 days	9 days	Assurance required that the Council's internet use is controlled and monitored, website services are appropriately authorised and content is controlled, and the email system is also controlled and monitored.	November 2014	<p><b>Strengths</b> Clear Policy including roles and responsibilities which employees must sign to evidence agreement to, prior to system access. Access to internet sites is restricted. Appropriate guidance and support for website administrators. Appropriate software used to quarantine emails where required.</p> <p><b>Areas for Improvement</b> Currently there is no requirement for authorisation from senior management regarding access to records on an employee's internet and email use, to determine whether it is an appropriate request. The use of generic accounts to update the council's intranet site limits the effectiveness of the audit trail.</p>	Sufficient Assurance

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
<b>Customer Facing</b>						
Licensing Partnership - Follow Up Review	5 days	5 days	Assurance required that appropriate work is taking place to deliver required service improvements and to improve reconciliation processes.	August 2014	<p><b>Strengths</b> Appropriate procedures to record, monitor and implement recommendations and report to the Licensing Partnership Board on progress made. Reconciliation processes have been improved and documented.</p> <p><b>Areas for Improvement</b> Timeliness of reconciliation completion.</p>	Sufficient Assurance
Land Charges	10 days	7 days	Assurance required that fees and charges are set at the appropriate level; sufficient resources are in place to deliver the required service level and to identify and respond to any changes in requirements.	November 2014	<p><b>Strengths</b> Team of skilled and experienced staff with sufficient resources to identify any required changes in service delivery, and act upon them in a timely manner. Performance in turnaround times of search applications was exceeding target at the time of audit. Testing found all cases reviewed had been charged correctly and completed on time, with appropriate documents retained.</p> <p><b>Areas for Improvement</b> Fees and Charges have not been reviewed since 2010 but should have been reviewed and published annually. Some issues with data quality on historic and planning records leading to inefficiencies as the team have to double check results.</p>	Sufficient Assurance
<b>Governance &amp; Performance</b>						
Member Empowerment Fund	5 days	5 days	Assurance required that Policy and Procedures are fit for purpose and being correctly followed. Also that award of funding is appropriate, in line with Policy and Policy is effective.	June 2014	<p><b>Strengths</b> High standard of record keeping provides a clear audit trail. Testing confirmed that awards of funding were in line with Policy and were subject to appropriate endorsements, checks and authorisation prior to payment.</p> <p><b>Areas for Improvement</b> Scope for improving the Member Empowerment Fund Policy and associated guidance in terms of clarity and consistency. Information made available to the public could also be improved in terms of clarity.</p>	Sufficient Assurance

Audit Assignment	Days		Area Reviewed	Date of Reporting	Comments	Assurance Rating
	Plan	Actual				
Staffing Pay & Benefits	5 days	7 days	Consultancy assignment requesting benchmarking of salary levels and other employee benefits	September 2014	<b>Consultancy Assignment</b> Benchmarking exercise completed and data provided on salary levels and other employee benefits to aid the Head of Resources & OD and HR Manager in their plans to make improvements and to help recruit and retain adequate staff.	N/A Consultancy Assignment

## NOTES

### Assurance Ratings

Assurance ratings to be awarded have been agreed by the Welland Board as Substantial, Sufficient, Limited and No Assurance.

<b>Audit Opinion</b>	<b>Design of Control Framework</b>	<b>Compliance with Controls</b>
<b>Substantial</b>	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.
<b>Sufficient</b>	The control framework includes key controls that promote the delivery of service objectives.	Controls are applied but there are lapses and/or inconsistencies.
<b>Limited</b>	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.
<b>No</b>	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

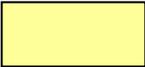
The issues identified have been addressed through audit recommendations or corrective action by Managers.

### Appendix 4: Range of Assurance for 2014/15

Financial Risks	ICT Risks	Fraud Risks	Customer Facing Risks	Governance & Performance Risks
85 DAYS ALLOCATED	10 DAYS ALLOCATED	20 DAYS ALLOCATED	25 DAYS ALLOCATED	55 DAYS ALLOCATED
Main Accounting, Cash & Banking	Internet & Website <b>Rating = Sufficient Assurance</b>	Council Tax & NDR Fraud	Community Infrastructure Levy – Advisory Work	Staffing – Pay & Benefits <b>Rating = N/A as consultancy</b>
Fixed Assets <b>Rating = Substantial Assurance</b>	Legislation	Corporate Counter Fraud Arrangements <b>Rating = N/A as consultancy</b>	Licensing Partnership - Follow Up Review <b>Rating = Sufficient Assurance</b>	Shared Services & Partnership Arrangements
Creditors			Land Charges <b>Rating = Sufficient Assurance</b>	Business Continuity Plan
Debtors			Individual Voter Registration	Projects and Transformation
Budgeting & Budgetary Control				New Risk Management System
Treasury Management				Member Empowerment Fund <b>Rating = Sufficient Assurance</b>
MTFP & Collection Fund <b>Rating = Substantial Assurance</b>				Fees & Charges
Payroll <b>Rating = Sufficient Assurance</b>				

## 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 Audit Planning Records have been issued

Audit Assignments shaded  are those where field work has begun

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  are those which have been cancelled / deferred