



## **Governance & Audit Committee – 15 July 2015**

### **Welland Internal Audit Consortium – Internal Audit Plan & Performance Update 2015/16**

---

#### **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 2015/16 and associated measures of performance.

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

Appendix A: Detailed Progress Report for 2015/16 to week 12.

---

#### **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 days to deliver the 2015/16 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 12 (19<sup>th</sup> June 2015), the latest possible date for reporting to this committee meeting.
- 2.2. At the date of reporting, final reports have been issued for one assignment and fieldwork is underway on a further three audits. Full details are shown in Appendix A to the report.

#### **3.0 Key Issues and Updates**

- 3.1 As at the end of week 12, the Consortium has delivered 47 of the commissioned 230 days. The Consortium is currently on target to achieve this requirement and to deliver all commissioned days by year end.
- 3.2 No areas of significant risk or control weaknesses have been identified in the work completed to date.

#### **4.0 Follow Up of Outstanding Recommendations**

- 4.1 Recommendations made as a result of an audit review are tracked using the Consortium's audit management software and followed up at the council's quarterly performance clinics.

4.2 Information regarding outstanding actions from 2014/15 work only has been included in the Annual Report of Internal Audit. Review of the information returned to Internal Audit from the 2015/16 quarter one performance clinics determined that, at the date of reporting, there were 47 audit actions yet to be implemented, of which five were overdue. Updates on progress with implementation will be included in future progress reports.

## 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 Recommendation

10.1 That the progress and performance of the Consortium be noted.

*(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,<br>☎ 07787 860067, ✉ nscott@rutland.gov.uk |  |  |           |  |   |
| <b>Date:</b> 15 <sup>th</sup> July 2015   |  |  |           |  |   |
| <b>CFO</b><br>1.7.2015  |   |  | <b>MO</b> |  | <b>CX</b><br>29.6.2015<br> |



**EAST NORTHAMPTONSHIRE COUNCIL**

**INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE**

**JULY 2015**

**Date: 15<sup>th</sup> July 2015**

## ***Introduction***

- 1.1 The Welland Internal Audit Consortium provides the internal audit service for East Northamptonshire Council and has been commissioned to provide 230 days to deliver the 2015/16 Annual Audit Plan and undertake other work commissioned by the client.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Governance & Audit committee to scrutinise the performance of the Internal Audit Team and to satisfy itself that it is receiving appropriate assurance about the controls put in place by management to address identified risks to the council. This report aims to provide the committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the Consortium.

## ***Performance***

### **2.1 Will the Internal Audit Plan for 2015/16 be delivered?**

The Welland Internal Audit Consortium is currently under the management of LGSS (Local Government Shared Services). The Welland Board has set LGSS the objective of delivering at least 90% of the Internal Audit plans for 2015/16 to draft report stage by the end of March 2016.

From the 2014/15 Internal Audit plan, the management approval of two draft reports remains outstanding, however fieldwork on all assignments from 2014/15 has been completed and Internal Audit resource can, therefore, be applied to delivering the 2015/16 assignments, as planned.

As at week 12 (19<sup>th</sup> June 2015), the latest practical date for reporting to this committee, a final report has been issued for one assignment; and work is underway on three further assignments. Progress on individual assignments is shown in Table 1.

### **2.2 Are audits being delivered to budget?**

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.

### **2.3 Are clients satisfied with the quality of the Internal Audit assignments?**

Responses received to the Customer Satisfaction Questionnaire show that clients have rated all aspects of the audit assignment completed during the last quarter as 'outstanding'. A summary of the responses is provided in Table 2.

### **2.4 Is the Internal Audit team achieving the expected level of productivity?**

As at the latest possible date for reporting purposes (week 12), the team has been delivering **89%** productivity against a target of 90%. In May 2015, a new Trainee Auditor was recruited

to the team which has resulted in some additional management time for recruitment and induction procedures.

**2.5 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?**

No significant control weaknesses or issues of concern have currently been identified.

At the time of reporting, one audit from the 2015/16 Internal Audit Plan has been finalised. This audit was in relation to **Waste Management (TEEP Compliance)** and Internal Audit provided a **Sufficient Assurance** opinion over the design and effectiveness of the controls operating to manage the identified risks.

The EU Waste Framework Directive (WFD) requires all member states to implement measures to ensure that, from 1<sup>st</sup> January 2015, four key waste materials - paper, metal, glass and plastic - are collected separately from other waste for recycling. Regulations state that separate collections are required where they are 'technically, environmentally and economically practicable (TEEP)' and appropriate to meet the necessary quality standards for the reprocessing industry. Councils are required to assess their waste collection models and evidence compliance with the Regulations.

The audit reviewed the controls in place to manage the risks of a flawed or insufficiently robust methodology and of unclear, inaccurate or insufficient evidence being used in the assessment.

The report highlighted that the methodology in use is robust and complies with most aspects of the available guidance. The methodology could be further strengthened by including more data and information regarding the quality of recycled materials and a case study representing a separate collection system for East Northamptonshire. Some errors were identified in the model but correction of these errors further reinforced the overall conclusion of the exercise. Nevertheless, the errors will need to be addressed and audit trail strengthened in some areas if the model is to be updated and relied upon in future.

Five recommendations were made to address the identified issues and agreed for completion during 2015.

The key findings from the 2014/15 Plan are provided in the Annual Internal Audit Report.

Copies of all final Internal Audit reports are issued to the Chair and Vice Chair of the committee at the time of finalisation. Reports are also available to Members at any time and can be requested via the Head of Internal Audit.

**2.6 Are clients progressing audit recommendations with appropriate urgency?**

Recommendations are reviewed as part of the council's quarterly performance clinics. As a result, most managers have implemented recommendations within agreed deadlines or, if

this is not possible, provided explanations for non-compliance and agreed revised target dates for completion.

Information regarding the implementation of recommendations made during the 2014/15 Plan is provided in the Annual Internal Audit Report. Review of the information returned to Internal Audit, from the 2015/16 quarter one performance clinics determined that if all recommendations are taken into account, at the date of reporting there were 47 audit actions yet to be implemented of which five were overdue. Future progress reports presented to the committee will include updates on implementation rates and any overdue actions.

**Table 1 - Progress against 2015/16 Internal Audit Plan**

| <i>Assignment</i>                            | <i>Budget days</i> | <i>Actual days</i> | <i>Planned start</i> | <i>Status</i>      | <i>Assurance sought</i>   | <i>Assurance Rating</i> | <i>Findings / Comments</i> |
|--|--------------------|--------------------|----------------------|--------------------|---|-------------------------|----------------------------|
| <b>Financial Risks</b>                       |                    |                    |                      |                    |   |                         |                            |
| Financial Resilience                         | 69                 | -                  | Q3 or Q4             |                    |   |                         |                            |
| Transparency Code                            |                    | -                  | Q2                   |                    |   |                         |                            |
| Creditors                                    |                    | -                  | Q3 or Q4             |                    |   |                         |                            |
| Debtors                                      |                    | -                  | Q3 or Q4             |                    |   |                         |                            |
| Payroll                                      |                    | -                  | Q3                   |                    |   |                         |                            |
| Fixed Assets                                 |                    | -                  | Q2 or Q3             |                    |   |                         |                            |
| Treasury Management                          |                    | -                  | Q3 or Q4             |                    |   |                         |                            |
| Main Accounting System                       |                    | -                  | Q3 or Q4             |                    |   |                         |                            |
| Payroll – Non Standard Payments & Deductions | 6                  | 1                  | Q1                   | Field Work Started | Assurance that adequate methodologies are in place to accurately calculate non-standard payroll payments and deductions and that transactions paid /deducted are accurate and consistent with policy. |                         |                            |
| <b>Governance Risks</b>                      |                    |                    |                      |                    |   |                         |                            |
| Effectiveness of the Whistleblowing Policy   | 5                  | -                  | Q3                   |                    |   |                         |                            |
| Risk Management                              | 10                 | -                  | Q3 or Q4             |                    |   |                         |                            |

| <i>Assignment</i>  | <i>Budget days</i> | <i>Actual days</i> | <i>Planned start</i> | <i>Status</i>       | <i>Assurance sought</i>   | <i>Assurance Rating</i> | <i>Findings / Comments</i>   |
|--|--------------------|--------------------|----------------------|---------------------|---|-------------------------|--|
| <b>IT</b>  |                    |                    |                      |                     |   |                         |  |
| IT Service Desk, Software Licensing and Asset Management     | 12                 | 2.2                | Q1                   | Field Work Started  | Assurance that the council has put in place controls to ensure that there is an effective IT Service Desk, that the council's record of IT software licences and IT equipment are complete and up to date and that the council employs only properly licensed software. |                         |  |
| IT Security Measures   | 13                 | -                  | TBC                  |                     |   |                         |  |
| <b>Service Delivery Risks</b>                                |                    |                    |                      |                     |   |                         |  |
| Universal Credit & Changes to the Council Tax Support Scheme | 10                 | -                  | Q2                   |                     |   |                         |  |
| Community Infrastructure Levy / s.106 Agreements             | 10                 | -                  | Q4                   |                     |   |                         |  |
| Procurement / Contract Management                            | 15                 | -                  | Q2                   |                     |   |                         |  |
| Waste Management   | 10                 | 10.2               | Q1                   | Final Report Issued | Assurance required on adequacy of the methodology applied and conclusions reached regarding compliance with the Waste Regulations.  | <b>Sufficient</b>       | <b>Strengths</b> - Detailed assessment model based on a points system and comparative case studies. Methodology is robust and complies with most aspects of the available guidance<br><b>Areas for Improvement</b> - Methodology could be further strengthened by including more data, information and a case study. Some minor errors in the models will need to be addressed and the audit trail strengthened. |
| Training Records   | 10                 | 8.9                | Q1                   | Draft Report Issued | To provide advice and assistance to the council in respect of staff and councillor learning and development plans and controls.   |                         |  |



| <i>Assignment</i>           | <i>Budget days</i> | <i>Actual days</i> | <i>Planned start</i> | <i>Status</i> | <i>Assurance sought</i> | <i>Assurance Rating</i> | <i>Findings / Comments</i> |
|-----------------------------|--------------------|--------------------|----------------------|---------------|-------------------------|-------------------------|----------------------------|
| Projects and Transformation | 5                  | -                  | Q4                   |               |                         |                         |                            |
| <b>Total</b>                | <b>175</b>         | <b>22.3</b>        |                      |               |                         |                         |                            |

| <b>Other Support</b>  | <i>Budget days</i> | <i>Actual days</i> | <i>Comments</i> |
|---|--------------------|--------------------|-----------------|
| Advice & Assistance   | 2                  | 0                  |                 |
| Committee Work, Support & Annual Report                             | 15                 | 2.3                |                 |
| Recommendation Follow-Up  | 3                  | 0.3                |                 |
| Client Meetings   | 7                  | 1.1                |                 |
| External Audit liaison  | 1                  | 0                  |                 |
| Strategic Mgt & Audit Planning                                      | 5                  | 0                  |                 |
| NFI & AGS   | 2                  | 0                  |                 |
| Unavoidable interruptions e.g. ICT interruptions / fire alarms etc. | -                  | 1.2                |                 |
| Completion of 2014/15 Assignments                                   | -                  | 15.5               |                 |
| Management of the Welland Internal Audit Consortium                 | 20                 | 4.7                |                 |
| <b>Total</b>  | <b>55</b>          | <b>25.1</b>        |                 |

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members might expect to receive.

|                    |   |
|--------------------|---|
| <b>Substantial</b> | 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.  |
| <b>Sufficient</b>  | The control framework is basically sound but either <ul style="list-style-type: none"> <li>• there are minor gaps or weaknesses which mean that some risks are not fully managed or mitigated; or</li> <li>• testing provides evidence of non-compliance sufficient to weaken the effect of some controls.</li> </ul> |
| <b>Limited</b>     | 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  |
| <b>No</b>          | 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.   |

**Table 2: Customer Satisfaction**

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire to each client with whom there was a significant engagement during the assignment. The Head of Service and the Line Manager receive a CSQ for all assignments within their areas of responsibility. The standard CSQ asks for the client’s opinion of four key aspects of the assignment. The responses received in the year to date are set out below.

| <b>Aspects of Audit Assignments</b> | <b>N/A</b> | <b>Outstanding</b> | <b>Good</b> | <b>Satisfactory</b> | <b>Poor</b> |
|-------------------------------------|------------|--------------------|-------------|---------------------|-------------|
| Design of Assignment                |            | 1                  |             |                     |             |
| Communication during Assignments    |            | 1                  |             |                     |             |
| Quality of Reporting                |            | 1                  |             |                     |             |
| Quality of Recommendations          |            | 1                  |             |                     |             |
| <b>Total</b>                        | <b>0</b>   | <b>4</b>           | <b>0</b>    | <b>0</b>            | <b>0</b>    |

## ***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 Governance 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 Governance 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. In other words, it is a snapshot of the control environment at that time. 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.