



Governance & Audit Committee – 6 July 2016

Welland Internal Audit Consortium – Annual Internal Audit Report and Opinion

Purpose of report

This report provides a copy of the Annual Report for 2015/16 which contains the Head of Internal Audit's annual opinion on the Council's control environment and the basis for this opinion, for the Committee's attention.

Attachment:

Appendix A: Annual Internal Audit Report 2015/16.

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 Annual Audit Plan.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Head of Internal Audit to provide an annual Internal Audit report and opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment) that can be used by the organisation to inform its Annual Governance Statement.

2.0 Internal Audit Opinion

- 2.1 Based upon the work undertaken by Internal Audit during 2015/16, the Head of Internal Audit's overall opinion on the Council's control environment is that Sufficient Assurance can be given that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally operating effectively in practice. However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.
- 2.2 Appendix A to this report provides a copy of the Annual Report which includes the Head of Internal Audit's opinion on the Council's control framework for 2015/16 and the basis for this opinion.

3.0 Internal Audit Performance

- 3.1 The report includes details of the delivery of the Internal Audit Plan for 2015/16 and achievement of the service's performance indicators. The team has delivered 100% of the assignments from the Internal Audit Plan for 2015/16. A summary of the key findings from each assignment is provided within the Annual Report.
- 3.2 Included within the report is an assessment of the Internal Audit service against the Public Sector Internal Audit Standards. This concludes that the Internal Audit Consortium operates in general conformance with the Standards.

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. The Annual Internal Audit Report provides an opinion on the Council's governance, risk and control environment based upon work completed by the service and the report highlights any key findings relating to the management of identified risks and controls from the audit reviews.

7.0 Resource and Financial Implications

7.1 There are no resource or financial implications arising from the report.

8.0 Constitutional Implications

8.1 The report does not require any amendment to the Council's Constitution.

9.0 Customer Service Implications

9.1 There are no customer service implications arising from the report.

10.0 Corporate Outcomes

10.1 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.

11.0 Recommendation

11.1 The Committee is recommended to

- (1) Note the Annual Internal Audit Report and Opinion for 2015/16.

(Reason – to review the performance of Internal Audit against the agreed plan and any key findings regarding the council's risk management and control arrangements in accordance with the Public Sector Internal Audit Standards)

Legal	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.				
Background Papers: None					
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Date: 6 th July 2016					
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been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management’s progress in respect of addressing any control weaknesses. A summary of Audit Opinions is shown in Table 1:

Table 1 – Summary of Audit Opinions 2015/16:

Area	Substantial	Sufficient	Limited	No
Financial Systems	4	4	-	-
Governance	1	1	-	-
IT	-	1	-	-
Service Delivery	1	2	1	-
Total	6	8	1	0
Summary	40%	53%	7%	0%
with 2014/15 Comparison	(41%)	(53%)	(6%)	(0%)

3. Review of Audit Coverage

3.1 Audit Opinion on Individual Audits

The Committee is reminded that the following assurance opinions can be assigned:

Table 2 – Assurance Categories:

Level of Assurance	Definition
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 resulting in inability to deliver service objectives. The fundamental controls are not being operated or complied with.

Audit reports issued in 2015/16, other than those relating to consultancy support, resulted in the provision of one of the above audit opinions. All individual reports represented in this Annual Report, with the exception of Fixed Assets, are final reports and, as such, the findings have been agreed with management, together with the accompanying action plans. The Fixed Assets draft report is currently with management awaiting responses.

3.2 Summary of Audit Work

3.2.1 Table 3 details the assurance levels resulting from all audits undertaken in 2015/16 and the date of the Committee meeting at which a summary of the report was presented.

Table 3 – Summary of Audit Opinions 2015/16:

Audit Area	Audit Opinion	Committee Date
Financial		
Financial Resilience	Sufficient	July 2016
Creditors	Substantial	February 2016
Debtors	Substantial	February 2016
Payroll – non-standard payments	Substantial	November 2015
Payroll	Sufficient	July 2016
Fixed Assets*	Sufficient	
Treasury Management	Sufficient	July 2016
Main Accounting System	Substantial	April 2016
Governance		
Effectiveness of the Whistleblowing Policy	Substantial	April 2016
Risk Management	Sufficient	July 2016
IT		
ICT Service Desk	Sufficient	November 2015
Service Delivery		
Working Parties	Substantial	April 2016

Audit Area	Audit Opinion	Committee Date
Procurement/Contract Management	Sufficient	February 2016
Waste Management – TEEP Compliance	Sufficient	July 2015
Training Records	Limited	September 2015

* Issued as draft report, awaiting management responses

3.2.2 Outlined in Appendix 1 is a summary of each of these audits that has been finalised during the year. The Committee should note that the majority of these findings have previously been reported as part of the defined cycle of update reports provided to the Governance and Audit Committee.

3.2.3 Where a Limited Assurance opinion has been given, a detailed overview of the findings has been provided to the Committee. An update on progress made in any areas where Limited Assurance was given, as at the time of reporting, is provided in Appendix 1, where possible. The Internal Audit team continues to monitor implementation of all outstanding actions.

3.3 Implementation of Internal Audit Recommendations

3.3.1 Internal Audit follow up on progress made against all recommendations arising from completed assignments to ensure that they have been fully and promptly implemented. Internal Audit trace follow up action and attend the Council's Management Team meeting on a quarterly basis to provide updates on implementation. The Head of Internal Audit provides a summary at each Governance and Audit Committee on the progress made and actions outstanding. Details of the implementation rate for audit recommendations during 2015/16 are provided in Table 4.

Table 4 - Implementation of Audit Recommendations 2015/16:

	Category 'High' recommendations	Category 'Medium' recommendations	Category 'Low' recommendations	Total
Agreed and Implemented	0	11	10	21 (46%)
Agreed and not yet due for implementation	0	7	10	17 (38%)
Agreed and due within last 3 months, but not implemented	1	1	1	3 (7%)
Agreed and due over 3 months ago, but not implemented	0	1	3	4 (9%)
TOTAL	1	20	24	45 (100%)

3.3.2 In addition to those actions outstanding from 2015/16 audit reports, a further 16 actions remain overdue in relation to audit reports issued in 2014/15. A summary of all overdue recommendations is provided in Table 5:

Table 5 - Summary of Overdue Recommendations as at 31st March 2016

Audit Title	Year reported	High		Medium		Low	
		Over 3 months	Under 3 months	Over 3 months	Under 3 months	Over 3 months	Under 3 months
ICT Service Desk, Software Licensing & Asset Management	2015/16	-	1	-	1	3	1
Training Records	2015/16	-	-	1	-	-	-
Corporate Counter Fraud Arrangements	2014/15	-	-	2	1	-	-
Shared Services & Partnership Arrangements	2014/15	-	-	6	2	-	1
Payroll	2014/15	2	-	-	-	1	-
Fees and Charges	2014/15	-	1	-	-	-	-

Totals		2	2	9	4	4	2
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3.3.3 The level of implementation is reported to the Governance and Audit Committee throughout the year. The content of the Progress Reports was also reviewed during 2015/16 to ensure that these provide members of the Committee with further details on the implementation of actions.

3.4 Internal Audit Contribution

3.4.1 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to management and members via its programme of work and also offers support and advice to assist the Council in new areas of work.

3.4.2 Delivery of 2015/16 Audit Plan

The Council commissioned 230 days from the Internal Audit Consortium to deliver the 2015/16 Audit Plan.

The team delivered a total of **234** days to East Northamptonshire Council in achieving the 2015/16 Audit Plan. This involved delivery of the planned audit assignments, client liaison, support, management, liaison, reporting and training for the Governance and Audit Committee and provision of ad hoc advice and support.

A breakdown of days commissioned and delivered is provided in Table 6, this demonstrates that the days commissioned for productive delivery of assignments were fully delivered and savings were achieved on management time.

Table 6 - Overview of days delivered by the Internal Audit team

Time commissioned in Audit Plan	Commissioned	Delivered
Productive days for Audit Assignment delivery	175	177.6
Completion of 2014/15 Audit Assignments – delayed from 2014/15 at request of management	-	5.4
Productive days for supporting the Council (management support and liaison, Committee attendance, Committee liaison and training, ad hoc queries, audit planning 2016/17)	34	32.2
Management and Development of the Consortium	21	19
Totals	230	234

3.4.3 Internal Audit Contribution in Wider Areas

Key additional areas of Internal Audit contribution to the Council in 2015/16 are set out in Table 7:

Table 7 – Internal Audit Contribution

Area of Activity	Benefit to the Council
Provision of training to members of the Governance and Audit Committee.	The Governance and Audit Committee is more effective in its role as an assurance provider.
Delivering testing on key controls as requested by External Audit to assist them in forming their opinion on the Annual Accounts and maintaining good working relationships with the external auditors.	Reduce audit burden, saving costs.
Benchmarking review conducted by the Consortium on financial transparency and compliance with the Transparency Code, which included East Northamptonshire Council.	Provided a comparison of the transparency of the Council's budget setting, budget monitoring and financial management arrangements with other authorities and assessed compliance with good practice and legislation.

4. Performance Indicators

4.1 Internal Audit maintains several key performance indicators (KPIs) to enable ongoing monitoring by the Welland Internal Audit Board and Committees. Outturns against these indicators in relation to work delivered for East Northamptonshire Council are provided in Table 8:

Table 8 – Internal Audit KPIs 2015/16

Indicator description	Target	Actual
Delivery of the agreed annual Internal Audit Plan – Audit Days	230	234
Delivery of the agreed annual Internal Audit Plan to at least draft report stage by 31 st March 2016	90%	88% (94% by 13th April 2016)
Customer Feedback – rating on a scale of 1 to 4 (average)	3.6	3.3

Where: 1 = Poor, 2 = Satisfactory, 3 = Good and 4 = Outstanding		
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5. Professional Standards

5.1 The Public Sector Internal Audit Standards (PSIAS) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) from April 2013. The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.

5.2 The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

5.3 A detailed self-assessment against the PSIAS has been completed by the Head of Internal Audit, a copy of which is provided in Appendix 2. The outcome of the assessment was that the activities of the Internal Audit service are in general conformance with the Standards.

Appendix 1: Summary of Internal Audit Work Undertaken for 2015/16

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Financial Systems			
Financial Resilience	Sufficient	To provide assurance over the Council's overall arrangements for securing financial resilience, including review of specific risks in respect of business rates and waste services.	<p>Based upon the review conducted by Internal Audit, the Council's financial planning arrangements have been assessed as sound. Procedures were found to be in place to ensure that the leadership team had a clear understanding of the financial challenges facing the Council and appropriate arrangements were in place to prepare financial plans that were clear and robust. Nevertheless, given the extent of the predicted medium term pressures, greater focus is likely to be required in future years on developing a more formal and systematic approach to the identification of efficiency savings. There was also scope to develop greater integration of timetables and processes for the preparation of financial and service plans to strengthen the link and inter-relationship between service objectives and related budget constraints.</p> <p>Detailed testing of business rates forecasts found that all key data and assumptions were supported by appropriate evidence or explanations. Forecasts in respect of the waste contract were at the early stages of development but appropriate mechanisms were being put into place to review and assess the cost of the service to enable more accurate estimates to be included in next year's financial strategy.</p>
Financial Transparency/ Transparency Code	Consultancy	This was a joint benchmarking review which was delivered concurrently to Rutland County Council, Melton Borough Council and East Northamptonshire Council. The data published by the five Welland authorities, plus an additional five	The Council publishes extensive information relating to its budget setting and monitoring, in addition to setting out its funding, statutory and constitutional requirements. The Council transparently sets out its financial plans and the pressures and risks related to those plans. Budget monitoring reports are published quarterly and provide extensive coverage and commentary on financial developments across the Council. For these reasons, Internal Audit has assessed the Council as providing a High level of transparency relating to its budget setting and monitoring.

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
		<p>authorities, was reviewed to provide meaningful comparative information.</p>	<p>With the exception of data related to senior officer salaries and the pay multiple, the Council demonstrated General compliance with mandatory elements of the Transparency Code. Data related to senior officer salaries and the pay multiple was published as at 31st March 2014, but had not been updated in 2015. This was discussed with officers and up to date information on these two areas has now been added to the Council's webpages. All other information had already been published on time although not all of the data was directly accessible through the Scheme of Publication links on the Council's website. Those areas identified as less easily accessible have been highlighted to officers for review.</p> <p>It was also identified that East Northamptonshire Council voluntarily published 38% of the additional data as recommended by the Code. In the benchmarking exercise, this was highlighted as the same, or more, than the percentage of the recommended information which had been published by four other Councils in the group of ten.</p>
Creditors	Substantial	<p>The audit was designed to provide management with assurance that appropriate controls are in place to effectively mitigate the key risks associated with creditor payment processes. Including:</p> <ul style="list-style-type: none"> • Compliance with policies and procedures • Access to IT systems 	<p>Sample testing of the purchase invoice process, credit notes, changes to standing data, urgent payments, BACS payments, aged creditor reports and reconciliations all provided evidence of efficient, effective procedures and consistent compliance with key controls and Council policy.</p> <p>In accordance with good practice, all changes to supplier details and the set-up of new suppliers are verified by the Exchequer Assistant using known contact details / independent sources and are then subject to management checks. The details provided are verified by management against the changes made on the financial system and the forms are signed to confirm these management checks</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
		<ul style="list-style-type: none"> • Misappropriation/loss of Council monies • Unauthorised or inappropriate ordering of goods and services • Poor financial and management Information 	<p>have been conducted. These checks represent a useful control in providing assurance that any changes to supplier details are appropriate, independently verified and accurate and, if conducted promptly, may identify errors before payments are made. In sample testing, 90% of the changes made to supplier details/new suppliers were supported by confirmation that checks had been conducted by management.</p> <p>Sample testing of payments made, highlighted that 96% had been matched to an approved purchase order (PO) on the system. It was noted; however, that 23% of these had been raised and approved retrospectively after the invoice date. In order to further tighten controls, the Council could introduce a 'no PO, no Payment' policy.</p> <p>The audit has also highlighted discrepancies between some senior officers' authorisation limits and the delegated limits formally approved in the Council's Constitution.</p>
Debtors	Substantial	The audit was designed to provide assurance that the invoicing, debt recovery and income processing systems and procedures are adequately controlled and the Debt Recovery Policy is fit for purpose and consistently applied.	<p>The audit highlighted a number of areas of good practice. Since the 2014/15 Internal Audit review, the sundry debtors procedural guidance had been reviewed and made available to officers. The new guidance is comprehensive and should support consistency and the exercising of key controls.</p> <p>Sample testing of the raising of invoices, credit notes, changes to standing data, recovery of outstanding debt, processing of income to correct codes/invoices and reconciliations to the general ledger all provided evidence of efficient, effective procedures and consistent compliance with key controls and Council policy.</p> <p>All debts which had been written off as unrecoverable during the financial year to date were reviewed for compliance with Council policy and delegations. In all cases an appropriate segregation of duties was evidenced and the reason for</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>the write-off had been provided, along with evidence of recovery action taken. All except one had been approved in accordance with the Council's delegations. The one exception related to a £50 debt which had been approved for write-off by a service manager, where Head of Service approval should be given in accordance with the Council's Constitution. It was also noted that debts written off during the last 12 months had not yet been reported to the Policy and Resources Committee, in accordance with the Council's Financial Procedure Rules.</p>
Payroll – Non Standard Payments	Substantial	<p>Following the identification of an incorrect estimation on maternity pay entitlement, a request was received from management for an Internal Audit review of the calculation and payment of non-standard payroll payments including: Adoption Pay, Annual Leave Purchase, Honorariums, Maternity Pay, Parental Leave Purchasing, and Long Service Awards.</p>	<p>The audit determined that the HR team and Principal Payroll Officer had clear methodologies for calculating non-standard Payroll payments and deductions. Such transactions were subject to secondary checks by the Payroll team for accuracy and system reports were also reviewed by the Payroll team to ensure payments made were correct.</p> <p>Testing completed determined no errors in calculations of payments or deductions in relation to Adoption Pay, Annual Leave Purchase, Honorariums, Maternity Pay, Parental Leave Purchasing, and Long Service Awards. Opportunities for improvement were highlighted, however, in relation to the recording and communicating of the methodologies used for such transactions and the steps that could be taken in the event that a complex calculation is identified.</p>
Payroll	Sufficient	<p>To provide assurance that standard payroll payments to employees are accurate, timely and secure; that payments to HMRC are timely and accurate; that payroll is accurately recorded in the accounts; that appropriate IT controls are in place</p>	<p>Sample testing of key controls in relation to starters and leavers, deductions and BACs payments all confirmed 100% consistent compliance with controls ensuring that accurate, approved payments were made in a timely manner.</p> <p>The payroll is processed on a combined HR and payroll system which is shared with Corby Borough Council (iTrent). During the 2014/15 Payroll audit, it was identified that four officers within HR, Finance and Payroll had 'System Administrator' access. This level of access enables officers to amend both the</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
		and that recommendations made during 2014-15 have been reasonably progressed and implemented.	<p>payroll and HR modules. Following an Internal Audit recommendation, a user access review had been undertaken to ensure that 'System Administrator' access was only granted where necessary. 'System Administrator' access at the time of audit was restricted to two payroll officers.</p> <p>Investigations had been made to establish whether an audit trail of any changes made to data on the system and reports to highlight all changes made could be provided via iTrent. It is now known that such functionality and reporting is not available via the current system. Discussions between CBC and the system provider are ongoing and remain subject to Internal Audit review. As such, in the meantime, assurance must be placed on other mitigating controls such as budgetary control procedures to ensure that changes to standing data are appropriate.</p> <p>In accordance with the Internal Audit recommendation from 2014/15, monthly reconciliations between the payroll system and the general ledger were being completed to verify the accuracy of the financial information. Although a review process was in place, the monthly payroll reconciliation was being approved verbally and this could be strengthened by introducing evidenced approvals to confirm the accuracy of the reconciliation has been reviewed.</p>
Treasury Management	Sufficient	<p>To provide assurance that:</p> <ul style="list-style-type: none"> - The Treasury Management function is conducted in line with statutory and regulatory requirements and best practice guidance; - Investments are appropriately safeguarded; 	<p>The Council's Treasury Management Strategy is adequate in detail and complies with the CIPFA Treasury Management Code of Practice. The Strategy is subject to annual Member review along with a list of approved counterparties that the Council can invest in, if required. Members also receive quarterly Treasury Management Activity reports. The Council commissions the services of a Treasury Management Adviser and the Accountant responsible for the Treasury Management function is sufficiently qualified and taking part in ongoing training and development.</p> <p>Review determined that there were procedures in place to deal with both loans</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
		<ul style="list-style-type: none"> - Transactions and records are complete, accurate and timely; and Returns on investments are managed appropriately. 	<p>and investments at the Council. Decisions were made based on detailed analysis of the Council's cash flow and there was an appropriate separation of duties between the officers proposing, setting up and authorising a transaction. Electronic and paper records of each transaction had been retained.</p> <p>It was, however, noted that whilst monthly reconciliations between banking records and the general ledger and investment and borrowing records were being performed, Internal Audit had not been able to provide assurance that these were complete and accurate due to a lack of audit trail to source documentation and errors identified in relation to interest from one investment. A new accountant was due to take responsibility for these reconciliations from March 2016 and it was recommended that the process followed for these be reviewed to ensure a full audit trail and the role of the reviewer of the reconciliation be clarified to provide assurance over this control.</p>
Main Accounting System	Substantial	<p>The audit reviewed key controls in relation to:</p> <ul style="list-style-type: none"> - Set up and approval of General Ledger codes - Access to create/edit/delete journals - Access to create/edit/delete General Ledger master data - Creation and approval of journals - Bank Reconciliations - Suspense account reviews and clearance 	<p>The EnCor finance team have put in place a framework of controls designed to assure that key processes are completed in an accurate and timely manner.</p> <p>The audit confirmed that all journals were being posted by members of the EnCor finance team. Within the current system, there is no authorisation of journal entries before they are posted. In mitigation, the Council's financial system retains an audit trail of system access and changes made by each officer that would enable appropriate action to be taken if fraud or error were ever suspected. Management have also implemented further monitoring controls to manage the risks such as the generation and review of quarterly journal monitoring reports which are subject to independent sample testing by a member of the EnCor Finance Team.</p> <p>Sample testing of journal entries confirmed that all had been accurately posted and an audit trail was available for each.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			Bank reconciliations were being performed on a monthly basis to provide assurance over the accuracy of the financial records. Audit testing confirmed that reconciliations between April and December 2015 had been completed and independently reviewed in a timely manner.
Governance			
Effectiveness of Whistleblowing Policy	Substantial	<p>To review staff awareness of, and confidence in, the Council's Whistleblowing policy.</p> <p>Covering:</p> <ul style="list-style-type: none"> - Communication of the Whistleblowing Policy for employees and contractors; - Awareness of the Whistleblowing Policy by employees and contractors; - Procedures for raising, handling and responding to concerns; and - Legislation requirements for whistleblowing. 	<p>The Council's current whistleblowing policy provided a clear explanation of the organisation's procedures for handling whistleblowing and a commitment to treat all disclosures consistently and fairly and take all reasonable steps to maintain the confidentiality of a whistle-blower. The policy was found to be easily accessible to employees, contractors and the public via the Council's intranet and internet sites. A recent staff survey also confirmed that 92% of employees had read the policy.</p> <p>Whilst there was a comprehensive policy and procedures in place, a review had not been conducted since 2011 and changes to whistleblowing legislation arising from the Enterprise and Regulatory Reform Act 2013 had been missed and the policy not updated as a result.</p> <p>There was also scope to further promote the policy through displaying posters around council buildings and providing training to employees and/or line managers on how to raise and handle whistleblowing disclosures.</p> <p>In addition, documentation relating to whistleblowing disclosures could be strengthened through the introduction of a central record.</p>
Risk Management		<p>To review the embedding and effectiveness of the new risk management system and procedures.</p> <p>Covering:</p>	<p>The Council operates a risk management framework that was implemented and agreed as part of the 2015 Risk Management Strategy. The strategy sets out clear guidelines on identifying, assessing, managing and reviewing risks and roles and responsibilities for risk management at the Council have been clearly defined.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
		<ul style="list-style-type: none"> - Risk Management Strategy - Risk Register - Risk appetite and culture - Risk Management and Internal Controls Systems (including risk identification, risk assessment, and mitigation strategies) - Monitoring and review process 	<p>Testing confirmed that the Council had a Corporate Risk Register supported by six service risk registers and it was evident that various types of risks had been considered and sufficient detail was captured to describe the cause and consequence of each risk. Risks were scored against impact and likelihood in a consistent manner, although Internal Audit found a small number of anomalies whereby the scoring was either missing or incorrect. These have since been corrected by Officers.</p> <p>The Risk Management software (InPhase) is a good tool to record and monitor risks and mitigation actions. Risk reports were being presented and discussed regularly at Corporate Management Team Meetings as well as at each Governance and Audit Committee.</p> <p>Actions to manage and mitigate risks are identified and recorded, however clear SMART (<i>Specific, Measurable, Assignable, Realistic and Time-related</i>) action plans were not always applied which could have an impact on officer engagement and focus. It was also highlighted that the scrutiny of action plans could be developed further through the Corporate Risk Management Group.</p>
IT			
IT Service Desk, Software Licensing and Asset Management	Sufficient	To provide 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.	<p>Based upon the testing completed, Internal Audit concluded that the systems in place for logging IT incidents and requests were appropriate and operating effectively. Evidence of compliance with good practice for Service Desk management was identified, particularly in relation to the prioritisation of calls in accordance with ITIL (Information Technology Infrastructure Library) requirements, and the audit trail within the Service Desk system. The audit confirmed that service desk performance was consistently above target; however minor issues with performance data were identified.</p> <p>Although the Council's asset management software was well designed and equipped to enable the effective maintenance of software and licence</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>information; it was not being used to its full capacity. IT Management recognised that information held within the system was in need of updating, and it was intended that this would be reviewed during 2015/16 as part of the planned project to upgrade the asset management software.</p> <p>The processes to be followed in procuring and disposing of new IT equipment had been well documented and purchasing was subject to robust controls including prior approval by the relevant budget holder. The audit confirmed that the Council held detailed records of ICT equipment which were maintained by the IT team; internal audit testing did highlight some inaccuracies in the data held, however these issues were being addressed by the IT team.</p>
Service Delivery			
Universal Credit	Consultancy	<p>To assist with this process the Council has requested a consultancy assignment to be delivered by Internal Audit. The assignment was scoped to include interviews with other authorities within the Welland area to gain advice regarding the areas identified in the Council's draft action plan. It was also agreed that a review of the Council's action plans would be undertaken once completed to provide advice on any further improvements that could be made.</p>	<p>All key aspects identified from the review which would need to be addressed were included on the draft action plan and relevant project documents.</p> <p>The progress against each task was discussed with the Benefit Manager and assurance was gained that where possible, actions had been completed. For those actions not yet completed, work was underway to complete or reasons could be given to explain the reasons why these could not currently be addressed i.e. information not yet available from the Department for Work and Pensions (DWP) or information not available until UC cases present themselves.</p> <p>The Benefits Manager was named as the Project Manager and her line Manager, the Executive Director was named as the Project Sponsor. The Benefits Manager confirmed that she was having one-to-one meetings with the Executive Director every two weeks, at which the progress on implementation was reviewed. In addition, where required, updates can be taken to the Welfare Reform Sub Committee.</p> <p>In summary, no concerns with the level of detail of action plans or plans to</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			implement these plans were identified.
Working Parties	Substantial	The audit was designed to provide management with assurance that appropriate controls are in place to effectively mitigate the risks associated with the establishment and governance of working parties.	<p>At the time of the audit, five working parties and one working group were in place at ENC, compliance testing confirmed that all six had been set up in accordance with Council Procedure Rules. In addition, with the exception of one working party, all had terms of reference in place, three of which had been approved accordingly. Key areas of membership, quorum and duties were detailed in three of the five terms of reference that were provided and appropriate reporting arrangements were in place for all working parties (and the one working group) included in the test sample.</p> <p>Four working parties had held meetings at the time of the audit, of these, all had appropriate administrative support in place to ensure that minutes were produced for all meetings. All four working parties were able to provide meeting agendas, minutes, action plans and supporting papers to confirm that progress and actions were documented accordingly. In addition, all had appropriate confidentiality arrangements in place.</p> <p>The audit identified some areas of improvement, particularly with regards to further developing the risk management activities undertaken by working parties. In addition, a more consistent approach to the governance of working parties across the board could further enhance controls and improve operational efficiency.</p>
Procurement/ Contract Management	Sufficient	To provide assurance over the Council's procurement procedures and the award of contracts, including assessing value for money and appropriate controls to reduce risk of fraud and corruption.	The internal audit review confirmed that the Council had developed appropriate procurement systems, policies and procedures to ensure compliance with legislative requirements. However, training was yet to be delivered and the new procurement toolkit was yet to be finalised and it would therefore take time for these policies and systems to become fully embedded.

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>For a small sample of procurements completed in the year to date, internal audit testing confirmed that officers had retained appropriate documentation on file which demonstrated compliance with the Council's procedures in the award of contracts, including the assessment of value for money and compliance with controls designed to prevent fraud and corruption. It should be noted that, given the low number of procurements completed by the Council since adoption of the new procedures, limited compliance testing was possible at the time of audit.</p> <p>Whilst the audit review confirmed that the designed governance arrangements were sufficient, it also identified opportunities to further enhance the control framework; particularly in terms of implementing additional controls to maximise opportunities to assure value for money.</p>
Waste Management – TEEP Compliance	Sufficient	<p>Internal Audit reviewed controls in respect of the following key risks:</p> <ul style="list-style-type: none"> • that the methodology applied in assessing compliance with the new TEEP regulations is flawed or not sufficiently robust to avoid challenge; and • that the evidence and information used as part of the assessment is unclear, inaccurate or insufficiently robust to support the overall conclusion. 	<p>The Council had undertaken an assessment of its waste collection methodology and reported the outcome to the Policy & Resources Committee on 19th January 2015. The report concluded that the Council's existing collection system was compliant with the regulations.</p> <p>The Council had developed a detailed assessment model based on a points system and comparative case studies. The methodology was robust and complied with most aspects of the available guidance. It was identified that it could have been 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 further reinforced the overall conclusion. Nevertheless, the errors would need to be addressed and audit trail strengthened in some areas if the model is to be updated and relied upon in future.</p>
Training Records	Limited	The Council's Senior Management had acknowledged that the records held in	Evidence was provided to confirm that a list of mandatory training requirements was approved by Corporate Management Team (CMT) in June

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
		<p>relation to staff and Members required improvement to ensure full and consistent records and the identification of training gaps. Work had already commenced to address these areas and an Internal Audit review was included within the Audit Plan for 2015/16 to support and inform this improvement plan.</p> <p>Given that new processes and procedures were yet to be implemented, the audit focused on reviewing current arrangements and weaknesses within these and also reviewed the proposed approaches for maintaining staff and Member training records. The review mainly focused upon mandatory or basic 'all staff' and 'all Member' training, however did include a high level review of procedures around wider training and development.</p>	<p>2015. It was also confirmed that steps had already been taken to improve the quality of Data Protection and FOI training records; and work to develop the central records for other key areas was expected to be undertaken by August 2015.</p> <p>Testing of attendance records confirmed that all new starters had completed the health and safety training, or were due to attend the next session. There was, however, no central record currently monitoring this or highlighting non-attendance and training gaps for existing staff were yet to be addressed. The audit review identified a number of actions to support the ongoing improvement process, details of which have been outlined in Section 2 and the Action Plan of this report.</p> <p>At the time of testing, other than attendance sheets and certificates held on file; there were no central records which effectively captured and clearly demonstrated the training attended by Members from 2012 onwards. There was, however, a documented plan in place to address this which was subject to senior management review.</p> <p>Update at April 2016. Key actions taken include:</p> <ul style="list-style-type: none"> • Mandatory training list has been created and agreed by CMT and Middle Managers. • Spreadsheet recording staff attendance on mandatory training is now in place. • Staff induction template form has been reviewed to ensure that dates rather than ticks are used to strengthen the audit trail.

Appendix 2: Self-Assessment against the Public Sector Internal Audit Standards (PSIAS)

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
1000 – Purpose, Authority & Responsibility	1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter	✓			The Internal Audit Charter reflects the mandatory nature of the relevant Standards.
1100 – Independence and Objectivity	1100	Organisational Independence	✓			Head of Internal Audit reports directly to the Audit Committee and has unfettered access to the Chief Executive, Chair of the Audit Committee and Section 151 Officer.
	1111	Direct Interaction with the Board	✓			Head of Internal Audit reports directly to the Audit Committee.
	1120	Individual Objectivity	✓			All members of the Internal Audit team are required to complete a Declaration of Interest form at the start of the financial year and any conflicts of interest are avoided in work allocations.
	1130	Impairment to Independence or Objectivity	✓			Approval sought from Audit Committees before undertaking any significant consulting services not already included in Audit Plans.
1200 – Proficiency and Professional Care	1210	Proficiency	✓			Head of Internal Audit is CCAB qualified and all Audit Managers hold professional qualifications and are suitably experienced for the role. Trainees and Auditors are undertaking training including final stages IIA exams.
	1220	Due Professional Care	✓			Experienced Audit staff exercise due professional care when planning and undertaking assignments. Scope of assignment is clarified within detailed audit planning record and the limitations to the scope and assurance provided are documented within audit planning records,

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						audit reports and progress reports. All audit planning records are approved by the Head of Internal Audit before work commences.
	1230	Continuing Professional Development	✓			Staff attendance at training and development opportunities. All Audit Managers must satisfy professional body CPD requirements.
1300 – Quality Assurance & Improvement Programme	1310	Requirements of the Quality Assurance and Improvement Programme	✓			External assessment completed in 2013 and annual internal self-assessment conducted by Head of Internal Audit, which is included in the Annual Report.
	1311	Internal Assessments	✓			Ongoing monitoring of performance at monthly individual supervision meetings, team meetings and post audit completion discussions. Customer Satisfaction Questionnaires (CSQs) requested from clients for each assignment and responses summarised for Audit Committees. Head of Internal Audit meets with senior management on regular basis and seeks feedback on value of the Internal Audit service and areas for development.
	1312	External Assessments	✓			External assessment conducted in 2013 by independent, professional company to assess against compliance with PSIAS. No further external assessment due until 2018.
	1320	Reporting on Quality Assurance and Improvement Programme	✓			The outcome of the external assessment and progress against the resulting improvement plan were reported to the Welland Board (where all Welland S151 officers are members) and to Audit Committees.

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						<p>All actions from the improvement plan were signed off by the Welland Board.</p> <p>Annual self-assessment against PSIAS included within Head of Internal Audit's Annual Report – to be presented to the Welland Board and Audit Committees.</p>
	1321	Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	✓			Based upon completion of improvement plan and ongoing assessment and quality assurance processes, results support compliance with Standards and Code of Ethics.
	1322	Disclosure of Non-conformance	✓			Instances of non-conformance identified in 2013 were reported to the Board and Committees following the external assessment. Progress against the improvement plan to address all areas of non-conformance was reported to Committees and management until all actions were signed off.
2000 – Managing the Internal Audit Activity	2010	Planning	✓			Process for development of risk based audit plans was presented to each Audit Committee for approval. Plans were developed with input from senior management and Committee members. Audit planning process is documented in Internal Audit Charter.
	2020	Communication and Approval	✓			Any changes to the approved Audit Plans during the financial year are communicated to the Audit Committee and subject to agreed approval mechanisms in accordance with the delegated decision making arrangements.
	2030	Resource Management	✓			Resources reviewed on an ongoing basis to ensure these are

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						appropriate, sufficient and effectively deployed. Team includes four professionally qualified, experienced Audit Mangers. Any concerns on adverse impact on provision of the audit opinion would be raised by the Head of Internal Audit in Annual Report.
	2040	Policies and Procedures	✓			Audit manual, charter and practice notes revised as part of improvement plan to ensure compliance with Standards.
	2050	Coordination	✓			Other sources of assurance are considered and reviewed as part of the Audit Planning process to avoid any duplication with other assurance providers.
	2060	Reporting to Senior Management and the Board	✓			<p>The Head of Internal Audit attends meetings with senior management and Audit Committees on a regular basis. Progress reports are presented at every Audit Committee meeting and details of assurance levels are provided with focus upon those of Limited Assurance opinions.</p> <p>The content of the progress reports was reviewed during 2015 and the Audit & Governance Committee now receives a detailed breakdown of the implementation of audit actions and full details of all actions which have been overdue for more than three months and classed as 'high' or 'medium' priority. The Committee also now receives the full Executive Summary of all audit reports finalised during the period and full audit reports for any assignments receiving a rating of Limited or No Assurance.</p>

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
2100 – Nature of Work	2110	Governance	✓			<p>Audit team provides independent advice on drafting of governance related policies and attends governance groups, where applicable. Audit findings on risks and controls are presented to the Audit Committee and senior management with recommendations on areas for improvement.</p> <p>As appropriate, the Internal Audit team contributes to the development of the Annual Governance Statement.</p> <p>IT Governance reviews included in rolling IT Audit plan.</p>
	2120	Risk Management	✓			<p>Internal Audit refer to the organisation’s risk registers during Annual Planning exercises and provide training to committee members on risk management and the ‘three lines of defence’ to support effective review.</p> <p>Risks relating to the organisation’s governance, operations and information systems, as well as fraud risks, form part of individual audit assignments, as stated in the audit planning records and audit reports.</p> <p>The Internal Audit planning process for 2016/17 included review of risk management systems and procedures and as stated in the PSIAS ‘Internal Audit gather the information to support this assessment</p>

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						<p>during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness'. As such, the outcome of the various risk based assignments within the Audit Plans provide an understanding of the effectiveness of the Council's risk management procedures which can be raised with senior management and the Committee.</p> <p>An Internal Audit review of Risk Management was undertaken at East Northamptonshire Council in 2015/16. This reviewed the risk management strategy, risk registers, risk appetite and culture, risk management and internal control systems for risk identification, assessment and mitigation and monitoring and review processes. Recommendations were made where risk management arrangements could be improved and an opinion of Sufficient Assurance was awarded. This informs the annual Internal Audit opinion for the year.</p> <p>Auditors are alert to other significant risks when undertaking any consulting engagements and give advice and make recommendations but it is the responsibility of management to implement these actions.</p>
	2130	Control	✓			<p>In accordance with the risk based approach to Internal Audit assignments, the adequacy and effectiveness of controls are evaluated and reported upon on each audit assignment. The audit report template clearly provides an assurance rating for both design and compliance for each control.</p>
2200 – Engagement Planning	2201	Planning Considerations	✓			<p>An audit planning record is issued and subject to formal approval for all audits. This outlines the scope, objectives, timescales, resource allocations, access requirements and limitations to scope for the</p>

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						<p>assignment. This is reviewed and approved by the Head of Internal Audit before issuing to the client.</p> <p>Any consultancy engagement is also subject to documented, agreed scope, objectives and respective responsibilities of the auditor and the client.</p>
	2210	Engagement Objectives	✓			Audit planning records are agreed for each engagement following preliminary discussions on risks with the audit clients and with input and review from Head of Internal Audit. Value for money considerations are included in the scope as appropriate.
	2220	Engagement Scope	✓			Detailed audit planning records are provided for all assignments establish the objectives, resources and access to systems, records, personnel and premises, as appropriate.
	2230	Engagement Resource Allocation	✓			Audit planning records state the number of audit days allocated to the assignment and the Audit Manager should agree a scope which is achievable within the resource available. The Head of Internal Audit reviews and approves all audit planning records before issuing to clients to ensure scope is appropriate and consistent with resource allocation.
2300 – Performing the Engagement	2310	Identifying Information	✓			Audit Managers ensure that sufficient, reliable and relevant information is used for audit assignments. File reviews conducted by Head of Internal Audit to confirm quality of evidence and basis for conclusions.
	2320	Analysis and Evaluation	✓			Reviews of electronic working papers conducted by Head of Internal

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						<p>Audit to confirm quality of evidence and basis for conclusions.</p> <p>Clearance meetings held with clients to discuss findings and basis for conclusions and provide opportunity to confirm accuracy of findings.</p>
	2330	Documenting Information	✓			<p>Retention of evidence to support conclusions and engagement results is saved on the audit software and network folders, where access is limited to Audit staff. Any hard copy evidence is scanned onto the network and software and destroyed via confidential waste.</p> <p>Practice note states 'Rutland County Council is the Consortium's employing body and the Consortium operates in line with the Council's Document Retention Policy'.</p>
	2340	Engagement Supervision	✓			<p>Monthly supervision meetings held with each member of Audit team to discuss progress made with each assignment, any issues encountered, workload and priorities for the month ahead.</p> <p>All audit reports are reviewed by the Head of Internal Audit and evidence is retained on file. All working papers are reviewed by the Head of Internal Audit (unless completed by an Auditor and fully reviewed by Audit Manager). Evidence of the review is held on the audit software with full audit trail.</p>
2400 – Communicating Results	2410	Criteria for Communicating	✓			<p>Internal Audit reports state the objectives, scope, conclusions, recommendations and agreed action plans.</p>
	2420	Quality of Communications	✓			<p>Head of Internal Audit review of reports ensures these are accurate, objective, clear, concise, constructive, complete and timely.</p>

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
	2421	Errors and Omissions	✓			No incidents recalled of any significant errors or omissions in reports. Any such incidents would be suitably escalated for resolution.
	2430	Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'	✓			Based upon completion of the improvement plan arising from the external assessment and the internal self-assessment, results support this statement.
	2431	Engagement Disclosure of Non-conformance	✓			Not applicable.
	2440	Disseminating Results	✓			<p>The final reports issued on all assignments are provided to all individuals named on the circulation list, approved at the commencement of the audit. Any circulation to parties in addition to those listed on the audit planning record will be agreed with the Head of Internal Audit and senior management.</p> <p>Copies of all finalised audit reports are available to Committee members by requesting from the Head of Internal Audit or Section 151 Officer. Copies are provided to the Chair and Vice Chair of the Governance and Audit Committee.</p> <p>The progress reports presented at each committee meeting include the outcome of each assignment, in relation to the assurance rating and the key matters arising.</p>
	2450	Overall Opinions	✓			The Head of Internal Audit provides an annual Internal Audit opinion which can be used to inform the Council's governance statement. This report includes an opinion, a summary of work that supports that opinion and a statement on conformance with PSIAS.

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
	2500	Monitoring Progress	✓			<p>There is an established process in place at each of the councils within the Consortium for the follow-up of progress made by management in implementing the agreed actions arising from audit reports.</p> <p>Internal Audit monitor and report to the Committee on the progress made. The content of the progress reports was reviewed during 2015 and the Governance & Audit Committee now receives a detailed breakdown of the implementation of audit actions and full details of all actions which have been overdue for more than three months and classed as 'high' or 'medium' priority.</p> <p>The Committee also now receives the full Executive Summary of all audit reports finalised during the period. The Chair and Vice Chair are on the circulation list for all finalised audit reports.</p>
	2600	Communicating the Acceptance of Risks	✓			<p>Where an identified risk is accepted by management this is reflected in the audit report. Where the risk is subsequently accepted because the agreed action is no longer feasible this would be discussed with senior management and details and context would be reported to the Committee.</p> <p>If the Head of Internal Audit had concerns about the level of risk accepted by management this would be reported to the Committee.</p>

Conclusion

Based upon the self-assessment completed by the Head of Internal Audit on 4th April 2016, the Welland Internal Audit Consortium is operating in general compliance with the Public Sector Internal Audit Standards (PSIAS).