



## Governance & Audit Committee – 6 July 2016

### Welland Internal Audit Consortium – Internal Audit Progress and Performance

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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 2016/17 and associated measures of performance.

#### Attachment:

**Appendix A: Progress Report for 2016/17 to week 11.**

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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 days to deliver the 2016/17 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 11 (10<sup>th</sup> June 2016), the latest possible date for reporting to this committee meeting.
- 2.2 At the date of reporting, draft reports have been issued for two assignments and work is currently underway on a further two assignments. Full details are shown in Appendix A to the report.
- 2.3 As at the end of week 11, the Consortium has delivered 45 of the commissioned 230 days.

#### 3.0 Important issues to consider

- 3.1 No areas of significant risk or control weaknesses have been identified in the work completed to date. The key findings of all recently finalised assignments are provided in Appendix A.

#### 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 role of Internal Audit is to provide assurance over the Council's governance, risk and control environment and the progress report highlights any key findings relating to the management of identified risks and controls from recent 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 progress and performance of the Consortium and the key findings from audits delivered during the period.

*(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)*

<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> Rachel Ashley-Caunt, Head of Internal Audit, ☎ 07824 537900 ✉ rashley-caunt@rutland.gov.uk					
<b>Date:</b> 6 <sup>th</sup> July 2016					
<b>CFO</b>		<b>MO</b>		<b>CX</b>	



**EAST NORTHAMPTONSHIRE COUNCIL**

**INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE**

**JULY 2016**

**Date: 6<sup>th</sup> July 2016**

## ***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 2016/17 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 2016/17 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 2016/17 to draft report stage by the end of March 2016.

At the time of reporting, draft reports have been issued for two audits and work is underway on a further two 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.

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

As at the latest possible date for reporting purposes (week 11), the team has been delivering 88% productivity, against the target set of 90%. The reduction in overall productivity is due to the induction of a new Trainee Auditor in April 2016 – but it should be noted that this new member of the team is already working at 80% including their induction period, which is making a valuable contribution to the delivery of the service.

### **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. Two audit reports have been issued as draft reports and are awaiting responses from management before finalisation. As such, no findings from the reports can be summarised at the time of reporting.

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 if requested.

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

Recommendations are reviewed as part of the Council's quarterly performance clinics. Updates are returned explaining action taken to complete a recommendation by the target date or, if this is not possible, to provide explanations for non-compliance and details of their expected target dates for completion.

The outcomes from the latest performance clinic (April 2016) have been provided to Internal Audit and have been summarised in the Internal Audit Annual Report for 2015/16. Full details of implementation rates and overdue actions are provided within the Annual Report.

**Table 1 - Progress against 2016/17 Internal Audit Plan**

<b>Assignment</b>	<b>Budget days</b>	<b>Actual days</b>	<b>Planned start</b>	<b>Status</b>	<b>Assurance sought</b>	<b>Assurance Rating</b>	<b>Findings / Comments</b>
<b>Financial Risks</b>							
Consultancy Support on new financial system	10		Q2				
Creditors	12		Q3				
Debtors	12		Q3				
Payroll	12		Q4				
Fixed Assets	5		Q4				
Treasury Management	9		Q4				
Main Accounting System	10		Q4				
Financial Management and VfM	12		Q2				
<b>Governance and Counter Fraud</b>							
Counter Fraud Arrangements	4		Q3				
<b>Corporate and Cross Cutting</b>							
Health and Safety	12	13	Q1	<b>Draft report issued</b>			Draft report issued and awaiting management agreement of action 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>
Local Taxation	12		Q3				
Procurement Compliance	5		Q3				
HR Data Quality	10	1	Q1	Fieldwork underway			
<b>ICT</b>							
IT Policies and Procedures	10						
<b>Service Delivery</b>							
S106 Agreements	20	0.5	Q1	Planning			
Building Control	10		Q3				
Pest Control Contract (Consultancy)	10	7.2	Q1	<b>Draft report issued</b>			Draft report issued and awaiting management sign off.
<b>Total</b>	<b>175</b>	<b>21.7</b>					

<b>Other Support</b>	<i>Budget days</i>	<i>Actual days</i>	<i>Comments</i>
Advice & Assistance	2	-	
Committee Work, Support & Annual Report	15	3	

<b>Other Support</b>	<b>Budget days</b>	<b>Actual days</b>	<b>Comments</b>
Recommendation Follow-Up and Client Meetings	10	3.2	
External Audit liaison	1	-	
Strategic Mgt & Audit Planning	5	-	
NFI & AGS	2	0.1	
Unavoidable interruptions e.g. ICT interruptions / fire alarms etc.	-	0.3	
Management of the Welland Internal Audit Consortium	20	2.5	
<b>Total</b>	<b>55</b>	<b>9.1</b>	
<b>Completion of 2014/15 Assignments</b>	-	14.5	

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.



## ***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.