



Governance & Audit Committee – 7 September 2016

Welland Internal Audit Consortium – Internal Audit Progress and Performance

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 20.

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 20 (12 August 2016), the latest possible date for reporting to this committee meeting.
- 2.2 At the time of reporting, final reports have been issued for three assignments, a draft report has been issued for a further audit and work is underway on one assignment. Full details are shown in Appendix A to the report.
- 2.3 As at the end of week 20, the Consortium has delivered 62 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)

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					
Person Originating Report: Rachel Ashley-Caunt, Head of Internal Audit, ☎ 07824 537900 ✉ rashley-caunt@rutland.gov.uk					
Date: 7 th September 2016					
CFO 23/8/16		MO		CX	



EAST NORTHAMPTONSHIRE COUNCIL
INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE
SEPTEMBER 2016

Date: 7th September 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 2017.

At the time of reporting, final reports have been issued for three assignments, a draft report has been issued for a further audit and work is underway on one assignment.

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 assignments completed during 2016/17 to date as 'good' or '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 16), the team has been delivering 93% productivity, against the target set of 90%.

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 final and are summarised below.

Health and Safety

East Northamptonshire Council (ENC) has a duty to protect the health, safety and welfare of its employees, in accordance with the Health and Safety at Work Act. In 2012, ENC entered into a shared service agreement with Kettering Borough Council and Corby Borough Council for the provision of the North Northamptonshire Safety and Resilience Partnership (NNSRP).

The Council's Health and Safety Policy was last reviewed and updated in May 2015 however has not yet been formally approved by Corporate Management Team and made available to all employees. There are, however, mechanisms in place to discuss and review health and safety matters through Corporate Management Team, Middle Managers Group, NNSRP meetings and the employee forum Xchange.

Based upon the audit testing, it is concluded that the Council's health and safety control framework has been designed well, however implementation of control activities needs to be improved in some areas of the Council. Internal Audit visited two ENC buildings (Thrapston and Rushden) and identified some incidences where controls were not operating consistently or where effectiveness of controls could be improved. The areas highlighted included display screen equipment (DSE) assessments, fire evacuation drills, fire alarm testing, risk assessments, mandatory health and safety training and fire warden arrangements.

Furthermore, the Council's Potentially Violent Persons Register displays personal data that is out of date and has not been subject to review, with some entries dating back to 1990. This could potentially put the Council at risk of non-compliance with the Data Protection Act.

Based upon the outcomes of the review, an opinion of **Sufficient Assurance** has been given over the controls in place to manage the identified risks. Internal Audit has made 13 recommendations to further improve the control environment.

Pest Control (Consultancy review)

The Council's pest control service is currently contracted out to SDK Environmental Ltd under a 12 month contract at an annual cost of approximately £24,000. The current contract is due to expire in the summer and management requested that Internal Audit undertake a review of the current arrangements. In particular:

- to consider whether the existing pest control service is meeting its operational and financial targets; and
- to explore options for future service delivery after the current contract expires.

This was a consultancy assignment and was not, therefore, to provide an overall assurance rating or formal audit recommendations.

Analysis of activity levels showed that there has been a decline in the overall number of treatments since 2011/12, but current activity levels had remained relatively stable for the past 2-3 years. It was also evident that treatment of rats continued to represent the bulk of the workload, accounting for almost 70% of all activity in 2015/16.

In April 2014, following in house staffing changes, the options for future delivery of the service were reviewed and options were presented to the Policy and Resources Committee for approval. The decision was made to outsource pest control treatments to an external provider based on the free first treatment of rats for residents on means tested benefits. The provider would also act as an approved contractor for the treatment of other pests.

An analysis of financial performance highlighted that the savings projected in the options appraisal in April 2014 were not being realised, however the service being delivered did not fully reflect that initially approved. There were some differences between the approved option and the service that was being provided in practice. In particular:

- The approved option was based on the Council only offering a service for free first treatment of rats for households in receipt of means tested benefits. However, the Council's web site and published schedule of fees indicates that the first treatment of rats continues to be provided free of charge to all households.
- The approved option also stated that all other treatments (including subsequent treatment of rats) would be referred to the contractor as preferred supplier with telephone calls handled by the contractor reducing demand on the Customer Services team (CST). This explains the prediction of zero income and a significant reduction in indirect costs due to an expected reduction in calls handled by CST. In reality, all treatment requests continue to be handled by CST in the first instance and continue to be charged for directly by the Council. Consequently, whilst income continues to be generated there has been no reduction in costs.

Following this review, officers have made arrangements to ensure that fees for treatment of rats are recovered in accordance with the agreed policy.

Internal Audit has explored seven options for future delivery models and have set out the potential risks and benefits of each to assist in informing the Council's decision making. These are set out in full in the audit report. Internal Audit cannot advise on a preferred option or have involvement in the decision making in order to maintain independence and professional standards.

Fixed Assets

The report on Fixed Assets from the 2015/16 Audit Plan has now been finalised. The report confirmed that sample testing of key controls in relation to the Council's Asset Register confirmed 100% consistent compliance with controls ensuring that the Asset Register was accurate and up to date.

The Council's Asset Management Plan (AMP) provides information about the management of the Council's physical assets in order to directly support the delivery of the Council's Corporate Plan. The AMP also includes an action plan which sets out how the Council will manage its assets in the future and considers ways to deliver better customer services, whilst continuing to minimise expenditure and generate income.

Auditor review of the AMP identified some inconsistencies with regards to the level of detail that had been provided for the listed assets. The frequency and responsibility for servicing plant and equipment, for example, had not been recorded for all operational Council owned buildings. Inclusion of this information in the AMP may facilitate the decision making process with regards to the Council's assets.

Whilst the AMP included an action plan which detailed five specific actions, it did not include any information with regards to the responsible officer(s), timescales for completion or details of progress on each action to date. The introduction of a Specific, Measurable, Achievable, Relevant, Time-bound (SMART) action plan should increase the likelihood that all objectives will be achieved.

The AMP should be reviewed annually to coincide with the setting of the Council's Medium Term Financial Strategy (MTFS), however, it was noted that the current AMP referred to the period covered as 2014 to 2019. Furthermore, there was a lack of documentary evidence on file to confirm when the current AMP had been approved by the Finance Sub-Committee. There is a risk that the current AMP may be out of date and could lead to ineffective decision making.

Having reviewed options for the maintenance strategy to adopt, the Finance Sub-Committee considered that a flexible approach to the replacement of items was more advantageous than replacing items at the end of their lifespan regardless of condition. An up to date capital and revenue outlook provided by the Finance Manager / Deputy Section 151 Officer was consistent with this approach and was able to provide assurance that the Asset Maintenance Programme was accurate and up to date.

Based upon the outcomes of the review, an opinion of **Sufficient Assurance** has been given over the controls in place to manage the identified risks. Internal Audit has made three recommendations to further improve the control environment.

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 latest updates the implementation of actions are provided in Tables 3 and 4, on pages 11 and 12. Since the last Committee meeting, Internal Audit has received further updates on the implementation of outstanding actions. It has been confirmed that 13 actions have been implemented but there are currently 21 actions which are overdue for implementation. Of these actions, 11 were assessed as 'high' or 'medium priority' and are now overdue by more than three months – these are detailed in Table 4.

Table 1 - Progress against 2016/17 Internal Audit Plan

Assignment	Budget days	Actual days	Planned start	Status	Assurance sought	Assurance Rating	Findings / Comments
Financial Risks							
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		Q3				
Governance and Counter Fraud							
Counter Fraud Arrangements	4	0.6	Q3				Cyber Fraud session delivered to CMT and middle managers in August 2016.
Corporate and Cross Cutting							
Health and Safety	12	18	Q1	Final report issued	Compliance with Health and Safety legislation and Council Policy; Identification of health and safety	Sufficient	The Council's health and safety control framework has been designed well, however implementation of control activities needs to

<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>
					risks, exposing staff and stakeholders to potential hazards; and Management information relating to health and safety.		be improved in some areas of the Council. Internal Audit visited two ENC buildings and identified some incidences where controls were not operating consistently or where effectiveness of controls could be improved. The areas highlighted included display screen equipment (DSE) assessments, fire evacuation drills, fire alarm testing, risk assessments, mandatory health and safety training and fire warden arrangements.
Local Taxation	12		Q3				
Procurement Compliance	5		Q3				
HR Data Quality – Absence Management	10	10	Q1	Draft report issued			Draft report issued to management for agreement
ICT							
IT Policies and Procedures	10		Q4				
Service Delivery							
S106 Agreements	20	10.6	Q1	Fieldwork underway			
Building Control	10		Q3				
Pest Control Contract (Consultancy)	10	7.9	Q1	Final report issued		Consultancy	

<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>
Disabled Facilities Grant	0	3.5	N/A	Final report issued	Certification of expenditure from Disabled Facilities Grant for Northamptonshire County Council	Certified	
Total	175	50.8					

Other Support	<i>Budget days</i>	<i>Actual days</i>	<i>Comments</i>
Advice & Assistance	2	-	
Committee Work, Support & Annual Report	15	3.8	
Recommendation Follow-Up and Client Meetings	10	3.8	
External Audit liaison	1	-	
Strategic Mgt & Audit Planning	5	-	
NFI & AGS	2	0.2	
Unavoidable interruptions e.g. ICT interruptions / fire alarms etc.	-	0.3	
Management of the Welland Internal Audit Consortium	20	3.5	
Total	55	11.6	
Completion of 2014/15 Assignments	-	16.9	

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.

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

Aspects of Audit Assignments	N/A	Outstanding	Good	Satisfactory	Poor
Design of Assignment	-	1	2	-	-
Communication during Assignments	-	2	1	-	-
Quality of Reporting	-	-	3	-	-
Quality of Recommendations	-	-	3	-	-
Total	0	3	9	0	0

Table 3 - Implementation of Audit Recommendations

	'High' priority recommendations		'Medium' priority recommendations		'Low' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and implemented since last Committee meeting	2	33%	12	63%	9	47%	23	53%
Actions due within last 3 months, but not implemented	-	-	-	-	2	11%	2	5%
Actions due over 3 months ago, but not implemented	4	67%	7	37%	8	42%	19	42%
Totals	6	100%	19	100%	19	100%	44	100%

Table 4 - 'High' or 'Medium' Priority actions overdue for more than three months

Audit Title and Year	Priority	Issue / Outstanding Action	Reason for Revised Implementation Timescale	Officer Responsible	Original Date	Revised Date(s)
Fees & Charges 2014/15	High	The Finance Manager develops corporate guidance on the process of reviewing and setting fees and charges	Methodology completed for discretionary fees and charges but requires review with HOS and relevant Middle Managers. Requested extension to 30 June but realistically will need extension to 30 August to complete.	Finance Manager (ENC)	31/01/2016	30/08/2016
IT Service Desk, Software Licensing and Asset Management 2015/16	High	Software reconciliations	Action deferred to prioritise actions relating to PSN compliance.	H of ICT	29/02/2016	31/10/2016
Payroll 2014/15	High	Audit Trail Functionality	Corby Borough Council are working with the software provider and have agreed the content of the reports provided. Mitigating controls operating in the interim period.	H OF RESOURCES & OD	30/09/2015	30/09/2016
Payroll 2014/15	High	Changes to employee master data report	Corby Borough Council are working with the software provider and have agreed the content of the reports provided. Mitigating controls operating in the interim period.	H OF RESOURCES & OD	01/09/2015	30/09/2016
Shared Services & Partnership Arrangements 2014-15	Medium	Develop a shared service and partnership policy and strategy	This strategy is being prepared.	CHIEF EXECUTIVE	30/11/2015	28/02/2016 31/10/2016
Corporate Counter Fraud Arrangements 2014-15	Medium	Monitoring Officer develops an area on the Council's intranet site for Counter Fraud and Anti-Corruption	Progress on developing the web-pages was initially delayed by the development of the new ENC Hub and then as a result of additional line management workloads for	EXECUTIVE DIRECTOR (MO)	30/09/2015	31/12/2016

Audit Title and Year	Priority	Issue / Outstanding Action	Reason for Revised Implementation Timescale	Officer Responsible	Original Date	Revised Date(s)
		information	the Monitoring Officer. However work on raising the profile of counter fraud activity has continued including the recent Cyber Crime presentation and work with LGSS/NCC re Single Person Discount.			
Effectiveness of the Whistleblowing Policy 2015-16	Medium	Whistleblowing Policy - Updating	Will be included in review of constitution and other governance matters report going to council in December 2016.	EXECUTIVE DIRECTOR (MO)	30/04/2016	31/12/2016
Corporate Counter Fraud Arrangements 2014-15	Medium	Monitoring Officer also develops refresher training to keep employees aware of Counter Fraud arrangements	Possible e-learning solution identified for authority wide use.	EXECUTIVE DIRECTOR (MO)	30/06/2015	31/12/2016
IT Service Desk, Software Licensing and Asset Management 2015-16	Medium	Software licence information	Action deferred to prioritise actions relating to PSN compliance.	H of ICT	29/02/2016	31/10/2016
Training Records 2015-16	Medium	Mandatory training arrangements for temporary staff	Draft induction checklist for agency/interim approved by CMT. Revised completion date 31/08/16	H OF RESOURCES & OD	31/10/2015	31/08/2016
Procurement - Contract Management 2015-16	Medium	Procurement Strategy	Work to review this has been started but has been deferred due to prioritisation of other work. Revised completion date of 31/10/2016	SECTION 151 OFFICER	31/03/2016	31/10/2016

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.