



Governance & Audit Committee – 1 February 2017

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 40.

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 40 (1 February 2017), the latest possible date for reporting to this committee meeting.
- 2.2 At the time of reporting, final reports have been issued for five assignments, a draft report have been issued for a further audit and work or planning is underway on seven assignments. Full details are shown in Appendix A to the report.
- 2.3 As at the end of week 40, the Consortium has delivered 115 of the 175 days commissioned for delivery of audit assignments.

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: 1 st February 2017					
CFO		MO		CX	



EAST NORTHAMPTONSHIRE COUNCIL

INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE

FEBRUARY 2017

Date: 1st February 2017

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 seven assignments, draft reports have been issued for a further audit and work or planning is underway on another seven assignments.

Progress on individual assignments is shown in Table 1.

2.2 Are audits being delivered to budget?

Internal Audit is on target to deliver the Audit Plan within the 230 days budget. Any overruns on individual assignments are managed within the overall budget.

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

Responses received to the Customer Satisfaction Questionnaire show that clients have rated 96% of 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 40), the team has been delivering 96% 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 since the last meeting and are summarised below.

Building Control

The audit determined that responsible staff were aware of the relevant regulations and guidance surrounding the setting of building control fees and it was confirmed that fees were being set in a timely manner. The Council has made the positive move from a 'standard charge' to 'individually charge' basis allowing the complexity of cases to be taken into account when providing estimates of fees. The move also improves efficiencies and allows the team to be more competitive in their pricing. Application fees are required upfront, weekly checks are made of inspection fees owed and monthly checks are completed on outstanding debtors. In addition completion certificates are not issued unless fees have been paid.

The building control team undertake annual service planning and have recently undergone a full staffing review. This is proactive work in anticipation of the retirement of key, longstanding members of the team. The review has resulted in significant improvements, via a taller team structure that allows for better career progression opportunities and better staff cover. Existing members of the team undertake training and continuing professional development (CPD) activities to ensure they are up to date in best practices and current issues.

The team have adequate procedures to log and check applications as well as allocate and progress cases. Testing confirmed that applications were logged and cases were progressed in a timely manner and customers were kept informed. It was also determined that fees were collected in a timely manner and only one minor error in calculating fees was detected. It was confirmed that this error had not resulted in a loss to the Council.

The team uses a number of key performance indicators (KPIs) to measure performance. The KPI for logging applications is currently above target and at the end of the last reporting period 94% of customers were satisfied with services delivered. The only possible improvement noted during the audit was the adjustment of the methodology for calculation of the KPI relating to notification to applicants of defects/amendments required.

Further service improvements are planned in the Council's move to paperless working and an electronic document management system, although unfortunately timescales are not yet fixed for this beneficial work.

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

Local Taxation

Local taxes comprise council tax and business rates. According to the 2015/16 financial statements, the Council collects over £44 million in council tax and £23 million in business rates. Given the large sums of money involved and potential impact on its financial standing, it is important that the Council has robust and effective controls to minimise the risk of fraud and error.

The audit testing has concluded that the key controls operating in relation to calculation of tax liabilities, billing, recovery and enforcement, income collection and refunds are robust and operating effectively in practice. Sample testing of bills, income processing and reconciliations confirmed 100% accuracy and compliance with key controls for both council tax and business rates. Testing of a sample of accounts in arrears confirmed that all relevant recovery stages had been consistently applied in an accurate and timely manner. A sample of refunds issued during the financial year to date was tested and all had been calculated accurately and been subject to the required level of review and authorisation before payment.

It had been identified in June 2016 that the work instructions relating to write offs did not reflect the updated financial regulations, and as such write offs were not being authorised in line with the requirements specified in the financial regulations. Arrangements were put in place in June 2016 to rectify this situation and ensure that the correct level of authorisation is obtained. In addition, the financial regulations do not reflect the process for authorisation of write offs exceeding £1,500 that currently occurs, whereby instead of authorisation by the Chief Finance Officer, this has been informally delegated to the Finance Manager, which is both a reasonable and appropriate delegation of responsibility. If this delegation is formally approved, the financial regulations should be updated to reflect this.

There are currently no formal delegation of authority arrangements in place within Revenues below the Corporate Management Team (CMT). As a result, all write offs, no matter how small (even write offs for 1p) must be approved by a member of CMT. It would be more practical for the higher frequency, small value transactions to be written off by senior officers within Revenues who have more detailed knowledge of individual cases; and for the lower frequency, high value transactions to remain within the remit of CMT for authorisation. This will ensure the appropriate level of scrutiny is applied to all cases where amounts owed to the Council are being written off.

Based upon the outcomes of the review, an opinion of **Substantial Assurance** has been given over the controls in place to manage the identified risks. Internal Audit has made six recommendations to further improve the control environment, none of which are classified as 'High' priority.

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 outcome of the latest performance clinic is not available at the time of reporting. A full update on implementation of audit actions will be provided at the next Committee meeting.

Table 1 - Progress against 2016/17 Internal Audit Plan

<i>Assignment</i>	<i>Budget days</i>	<i>Actual days</i>	<i>Planned start</i>	<i>Status</i>	<i>Assurance sought</i>	<i>Assurance Rating</i>	<i>Findings / Comments</i>
Financial Risks							
Consultancy support on financial system upgrade	10	0.2	As required	Fieldwork underway			Consultancy support provided as required
Creditors	13	0.2	Q4	Fieldwork underway			
Debtors	13	0.5	Q4	Fieldwork underway			
Payroll	14	5.4	Q3	Fieldwork underway			
Treasury Management	10	9.1	Q3	Draft report issued			Draft report issued to management for agreement of action plan.
Main Accounting System	10		Q4				Pending financial system upgrade
Financial Management and VfM	12	0.6	Q3	Fieldwork underway			
Governance and Counter Fraud							
Counter Fraud Arrangements	4	0.7	Q3	Fieldwork underway			Cyber Fraud session delivered to CMT and middle managers in August 2016 and Full Council in December 2016. Request from CMT to postpone audit fieldwork to Q4.

<i>Assignment</i>	<i>Budget days</i>	<i>Actual days</i>	<i>Planned start</i>	<i>Status</i>	<i>Assurance sought</i>	<i>Assurance Rating</i>	<i>Findings / Comments</i>
Corporate and Cross Cutting							
Health and Safety	12	18.1	Q1	Final report issued	Compliance with Health and Safety legislation and Council Policy; Identification of health and safety risks, exposing staff and stakeholders to potential hazards; and Management information relating to health and safety.	Sufficient	Reported at September 2016 Governance and Audit Committee meeting.
Local Taxation	12	19.6	Q3	Final report issued	Controls in place to ensure that all Council Tax and Business Rates due, is recovered in full and in a timely manner – covered: Policies and Procedures; Initial Council Tax / Business Rates Liabilities; Billing Procedures; Reconciliations; Recovery and Enforcement; Refunds; Income Collection; and Write offs.	Substantial	See section 2.5
Procurement Compliance	5	4.3	Q3	Fieldwork underway			
HR Data Quality – Absence Management	10	12.6	Q1	Final report issued		Sufficient	Reported at November 2016 Governance and Audit Committee meeting.

<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>
ICT							
IT Policies and Procedures	10		Q4				
Service Delivery							
S106 Agreements	20	21	Q1	Final report issued	Policy framework and negotiation processes are fit for purpose; Sufficient monitoring in operation to ensure all contributions and recovered and utilised; Controls operating to ensure monies are not clawed back.	Sufficient	Reported at November 2016 Governance and Audit Committee meeting.
Building Control	10	11.6	Q3	Final report issued	Fees set at the correct level and to recover all income owed to the Council results in financial losses; Succession planning and staffing; Efficient and effective services.	Substantial	See section 2.5
Pest Control Contract (Consultancy)	10	7.9	Q1	Final report issued		Consultancy	Reported at September 2016 Governance and Audit Committee meeting.
Disabled Facilities Grant	0	3.5	N/A	Final report issued	Certification of expenditure	Certified	
Total	175	115.1					

Other Support	Budget days	Actual days	Comments
Advice & Assistance	2	0.7	
Committee Work, Support & Annual Report	15	6.5	
Recommendation Follow-Up and Client Meetings	10	5.3	
External Audit liaison	1	0.3	
Strategic Mgt & Audit Planning	5	0.1	
NFI & AGS	2	0.2	
Unavoidable interruptions e.g. ICT interruptions / fire alarms etc.	-	1.6	
Management of the Welland Internal Audit Consortium	20	6.8	
Total	55	18.5	
Completion of 2015/16 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	5	1	-
Communication during Assignments	-	4	3	-	-
Quality of Reporting	-	1	6	-	-
Quality of Recommendations	-	-	7	-	-
Total	0	6	21	1	0

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.