



## **Governance & Audit Committee – 20 March 2017**

### **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 47.**

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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 47 (24 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 eight assignments, a draft report has been issued for a further audit and work is complete or underway on seven assignments. Full details are shown in Appendix A to the report.
- 2.3 As at the end of week 47, the Consortium has delivered 151 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)*

<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> 1 <sup>st</sup> March 2017					
<b>CFO</b>		<b>MO</b>		<b>CX</b>	



**EAST NORTHAMPTONSHIRE COUNCIL**  
**INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE**  
**MARCH 2017**

**Date: 20<sup>th</sup> March 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 eight assignments, a draft report have been issued for a further audit and work is complete or 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 47), 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. One audit report has been issued as final since the last meeting and is summarised below.

**Treasury Management**

The Treasury Management function at East Northamptonshire Council (ENC) is delivered in house by the Treasury Management Accountant. The Council's Treasury Management Strategy Statement (TMSS) is subject to annual Council approval and treasury management activity is reported at the appropriate level on a quarterly basis.

The Council has appointed external treasury management advisors to provide advice and guidance with regards to minimising costs of borrowing and maximising returns on investments. The Council has not undertaken any borrowing during the financial year to date and its investment priorities are security first, liquidity second, followed by return. Sample testing of ten treasury management transactions, identified that many of the expected controls were operating effectively; there were however some control issues, in that a lack of documentary evidence was held on file to confirm that an appropriate audit trail or segregation of duties existed in all cases.

The Council has appropriate fidelity insurance cover in place for officers engaged in treasury management activities. It was however noted, that some of the job titles of designated officers that were detailed were not consistent with the current structure that is in place within the Council.

Following a recommendation from last year's audit report, the treasury management reconciliation process had been under review and was not operating effectively at the time of testing. Unreconciled items had been rolled over throughout this financial year and it was confirmed that the balance totalled £44,464 as at the end of October 2016. At the time of testing, a procedure document had been produced and plans were for the new reconciliation process to be operating effectively from December 2016 and for the rolled forward balance to be cleared at year end. Management have since advised that the reconciliation process has now been implemented and is operating effectively.

Appropriate arrangements are in place to ensure that access to the treasury management system is restricted to authorised personnel and procedures are in place to ensure that the IT system can be restored in a timely manner.

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 – one of which has already been implemented.

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 April 2017 Committee meeting.

**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 financial system upgrade	10	0.2	As required	Fieldwork underway			Consultancy support provided as required
Creditors	13	4.7	Q4	Fieldwork underway			
Debtors	13	7.9	Q4	Fieldwork complete			
Payroll	14	15.6	Q3	Fieldwork complete			Awaiting remaining evidence before issuing draft report
Treasury Management	10	9.6	Q3	<b>Final report issued</b>	Compliance with statutory and regulatory requirements.  Controls over transactions and record keeping including segregation of duties, authorisation and reconciliations.  Management of risk of investments, security and maximising returns.	<b>Sufficient</b>	See section 2.5
Main Accounting System	10	1.7	Q4	Fieldwork underway			
Financial Management and VfM	12	6.9	Q3	Fieldwork underway			

<i>Assignment</i>	<i>Budget days</i>	<i>Actual days</i>	<i>Planned start</i>	<i>Status</i>	<i>Assurance sought</i>	<i>Assurance Rating</i>	<i>Findings / Comments</i>
<b>Governance and Counter Fraud</b>							
Counter Fraud Arrangements	4	3.3	Q3	Draft report issued			Cyber Fraud session delivered to CMT and middle managers in August 2016 and Full Council in December 2016.  Draft consultancy report issued in February 2017.
<b>Corporate and Cross Cutting</b>							
Health and Safety	12	18.1	Q1	<b>Final report issued</b>	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.	<b>Sufficient</b>	Reported at September 2016 Governance and Audit Committee meeting.
Local Taxation	12	19.6	Q3	<b>Final report issued</b>	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.	<b>Substantial</b>	Reported at February 2017 Governance and Audit Committee meeting.
Procurement Compliance	5	6.7	Q3	Fieldwork complete			Awaiting outstanding evidence before issuing draft report
HR Data Quality – Absence	10	12.6	Q1	<b>Final report</b>	Accuracy and completeness of absence reporting; and	<b>Sufficient</b>	Reported at November 2016 Governance and Audit



<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>
Management				issued	Policies and procedures for management and monitoring of staff absence.		Committee meeting.
<b>ICT</b>							
IT Policies and Procedures	10		Q4				Delayed pending internal review of IT Strategy.
<b>Service Delivery</b>							
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	Reported at February 2017 Governance and Audit Committee meeting.
Pest Control Contract (Consultancy)	10	7.9	Q1	Final report issued	Consultancy support on review of contract	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	

<i>Assignment</i>	<i>Budget days</i>	<i>Actual days</i>	<i>Planned start</i>	<i>Status</i>	<i>Assurance sought</i>	<i>Assurance Rating</i>	<i>Findings / Comments</i>
<b>Total</b>	<b>175</b>	<b>150.9</b>					

<b>Other Support</b>	<i>Budget days</i>	<i>Actual days</i>	<i>Comments</i>
Advice & Assistance	2	0.9	
Committee Work, Support & Annual Report	15	7.8	
Recommendation Follow-Up and Client Meetings	10	5.8	
External Audit liaison	1	0.3	
Strategic Mgt & Audit Planning	5	2.6	
NFI & AGS	2	0.2	
Unavoidable interruptions e.g. ICT interruptions / fire alarms etc.	-	1.6	
Management of the Welland Internal Audit Consortium	20	8.6	
<b>Total</b>	<b>55</b>	<b>27.8</b>	
<b>Completion of 2015/16 Assignments</b>	-	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.

<b>Substantial</b>	There is a sound control framework designed to manage or mitigate risks to the achievement of defined objectives. Testing confirms that the controls are being applied consistently.
<b>Sufficient</b>	The control framework is basically sound but either <ul style="list-style-type: none"> <li>• there are minor gaps or weaknesses which mean that some risks are not fully managed or mitigated; or</li> <li>• testing provides evidence of non-compliance sufficient to weaken the effect of some controls.</li> </ul>
<b>Limited</b>	There are significant weaknesses in key elements of the control framework which mean that significant risks are not managed or mitigated. Testing demonstrates significant levels of non-compliance with prescribed processes and procedures
<b>No</b>	The controls identified are not sufficient to manage/mitigate identified risks to the achievement of defined objectives. Testing demonstrates high levels of non-compliance with prescribed processes and procedures.

***Table 2: Customer Satisfaction***

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

<b>Aspects of Audit Assignments</b>	<b>N/A</b>	<b>Outstanding</b>	<b>Good</b>	<b>Satisfactory</b>	<b>Poor</b>
Design of Assignment	-	1	5	1	-
Communication during Assignments	-	4	3	-	-
Quality of Reporting	-	1	6	-	-
Quality of Recommendations	-	-	7	-	-
<b>Total</b>	<b>0</b>	<b>6</b>	<b>21</b>	<b>1</b>	<b>0</b>

## ***Limitations and Responsibilities***

### ***Limitations inherent to the internal auditor's work***

The Consortium is undertaking a programme of work agreed by the council's senior managers and approved by the Governance Committee subject to the limitations outlined below.

### ***Opinion***

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that the Consortium are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to the Consortium's attention. As a consequence, the Governance Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to the Consortium's attention.

### ***Internal Control***

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

### ***Future Periods***

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

### ***Responsibilities of management and internal auditors***

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

The Consortium endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be

detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.