



Governance & Audit Committee – 26 April 2017

Internal Audit – Progress and Performance

Purpose of report

To provide Members with information on the progress made by Internal Audit 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 52.

1.0 Background

- 1.1 The Welland Internal Audit Consortium provided the Internal Audit service for 2016/17 at East Northamptonshire Council and was 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 52 (31 March 2017).
- 2.2 At the time of reporting, reports have been issued for all assignments. Of the reports, all except two have been finalised. The remaining two draft reports are currently with the Council's management for responses and sign off. Full details are shown in Appendix A to the report.
- 2.3 As at the end of week 52, the Consortium has fully delivered the 175 days commissioned for delivery of audit assignments and additional days have been delivered, using some savings achieved on non-audit delivery work.

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

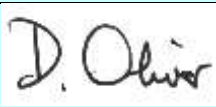
10.1 Effective Management - The Annual Audit Plan is designed to provide Members with assurance as to the effective management of the Council's most significant risks.

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: 6 th April 2017					
CFO		MO		CX 9/4/17	



EAST NORTHAMPTONSHIRE COUNCIL
INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE
APRIL 2017

Date: 26th April 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, reports have been issued for all audit assignments. Of these, thirteen have been finalised and two are at draft report stage, awaiting Council officer responses.

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 week 52, the team had been delivering 94% 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. Three audit reports have been issued as final since the last meeting and are summarised below.

Debtors

The Debtors function at East Northamptonshire Council is delivered through the EnCor Financial Services team, which is shared with Corby Borough Council. The function's primary objectives are to raise prompt, accurate debtor invoices for all sundry income owed to the Council and to ensure the prompt collection and recovery of such income. 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.

The audit highlighted a number of areas of good practice. The sundry debtors procedural guidance is comprehensive and supports consistency and the exercising of key controls. Debt recovery sample testing indicates that the Exchequer Team are proactively monitoring the level of debt and are working well with the service areas in pursuit of outstanding payments.

Sample testing of the raising of invoices, credit notes, changes to standing data, 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.

The level of write offs is low, seven write offs with a value of £1,625.83 have been made in the year to date, all had been appropriately authorised by the Head of Service. One low value write off was made in error (value of £295) and should therefore have been cancelled rather than written off, this was corrected at the time of audit. In all other cases the reasons for write off were appropriate and evidence of recovery action taken had been retained on file in line with council policy.

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. No formal recommendations have been made.

Creditors

The creditors function at East Northamptonshire Council is delivered through the Encor Financial Services team, which is shared with Corby Borough Council. The primary objective of the function is to deliver prompt and accurate payments to approved creditors, but only after goods and services have been delivered to required specifications.

The audit testing has concluded that key controls in relation to creation of new suppliers, changes to existing supplier data, matching purchase orders against invoices, differences between invoices and purchase orders, credit notes, cheque payments, urgent payments, council tax and business rates refunds, and reconciliations are operating effectively in practice. Sample testing of key controls in relation to the Goods Received Notes (GRN) process, authorisation within approved limits, creation of new suppliers, changes to supplier standing data, and BACS payments all confirmed 100% compliance with controls.

Sample testing of payments made confirmed that improvements have been made in ensuring that purchase orders are raised prior to the receipt of invoices. Sample testing in the 2015/16 audit concluded that 77% of the sample reviewed had been raised after the invoice date. Sample testing as part of this 2016/17 review has concluded that 96% of purchase orders reviewed had been raised prior to the invoice date, where applicable – a strong improvement in this control.

The audit report for 2015/16 contained a recommendation that the authorisation levels contained in the authorised signatories list should be amended to agree to the delegated levels contained in the Council's Constitution. The review this year identified that one senior officer still retained unlimited authorisation levels on the signatories list, which is not in line with the Constitution.

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. One formal recommendation has been made.

Procurement Compliance

The Council's Contract Procedure Rules (CPRs) are designed to ensure probity and value for money when procuring goods, works or services that meet the needs of local residents and comply with legal and regulatory requirements in respect of competition and transparency. This audit was carried out to provide assurance that officers are complying with the approved rules and practices.

A sample of contracts was selected for testing from a combination of the published contract register and expenditure reports. One case selected from the expenditure report could not be found on the contract register and an overall comparison of the report identified a number of other inconsistencies indicating that the contract register may be incomplete.

In all cases that were subject to competition the correct procurement method was chosen and where applicable at least three quotations or tenders were obtained. In one case no competitive process was applied and no formal exemption obtained. In addition, there is scope to improve documentation and evidence of compliance with certain aspects of contract procedure rules. Whilst there is no direct evidence of poor value for money or fraud/corruption, the overall level of compliance and record keeping could be improved to consistently evidence that the Council's policies and procedures have been followed.

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.

Consultancy work on **Counter Fraud Arrangements** and **Financial Management** has also been delivered and reported to management during the period. In both reviews, the Council's governance and control frameworks have been benchmarked against the CIPFA standards of best practice and any scope to further develop controls have been highlighted.

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 of the latest performance clinic are provided in Table 3 and demonstrate that 17 actions had been completed since the last update. There are 19 overdue actions and, of these, eight are assessed as 'High' or 'Medium' priority and have been overdue for more than three months. Full details of these eight actions are provided 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							
Creditors	13	12.9	Q4	Final report issued	Compliance with policies and procedures. Access to systems. Controls to prevent misappropriation and/or loss of Council monies and unauthorised or inappropriate ordering of goods and services	Substantial	See section 2.5
Debtors	13	11.6	Q4	Final report issued	Compliance with policies and procedures. Access to systems. Controls to prevent misappropriation/loss of income, including use of credit notes. Debt recovery and actions for irrecoverable debt. Quality of management information.	Substantial	See section 2.5
Payroll	14	18.8	Q3	Draft report issued			Report with management for responses and sign off.
Treasury Management	10	9.8	Q3	Final report issued	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.	Sufficient	Reported at April 2017 Governance and Audit Committee meeting.

Assignment	Budget days	Actual days	Planned start	Status	Assurance sought	Assurance Rating	Findings / Comments
Main Accounting System	10	10.5	Q4	Draft report issued			Report with management for responses and sign off.
Financial Management and VfM	12	10	Q3	Consultancy report issued	Assessment against CIPFA best practice guidance	N/A	
Consultancy support on financial system upgrade	10	0.2	As required	Consultancy support as required		N/A	Consultancy support provided as required
Governance and Counter Fraud							
Counter Fraud Arrangements	4	3.3	Q3	Consultancy report issued	Assessment against CIPFA Code	N/A	Cyber Fraud session delivered to CMT and middle managers in August 2016 and Full Council in December 2016.
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	19.7	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;	Substantial	Reported at February 2017 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>
					Reconciliations; Recovery and Enforcement; Refunds; Income Collection; and Write offs.		
Procurement Compliance	5	8.3	Q3	Final report issued	Compliance with the Council's procurement rules and legislation in procurement of goods and services	Sufficient	See section 2.5
HR Data Quality – Absence Management	10	12.6	Q1	Final report issued	Accuracy and completeness of absence reporting; and Policies and procedures for management and monitoring of staff absence.	Sufficient	Reported at November 2016 Governance and Audit Committee meeting.
ICT							
IT Policies and Procedures	10		Q4				As agreed in March 2017 - cancelled from 2016/17 pending internal review of IT Strategy.
Service Delivery							
S106 Agreements	20	21.2	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	12	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.

<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>
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	
Total	175	178.4					

Other Support	<i>Budget days</i>	<i>Actual days</i>	<i>Comments</i>
Advice & Assistance	2	1.2	
Committee Work, Support & Annual Report	15	10.4	
Recommendation Follow-Up and Client Meetings	10	7.2	
External Audit liaison	1	0.3	
Strategic Mgt & Audit Planning	5	3.7	
NFI & AGS	2	0.2	
Unavoidable interruptions e.g. ICT interruptions / fire alarms etc.	-	1.6	
Management of the Welland Internal Audit Consortium	20	11.3	
Total	55	35.9	
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

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	3	50%	7	50%	7	44%	17	47%
Actions due within last 3 months, but not implemented	1	17%	1	7%	2	12%	4	11%
Actions due over 3 months ago, but not implemented	2	33%	6	43%	7	44%	15	42%
Totals	6	100%	14	100%	16	100%	36	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 (provided from performance clinic report)	Officer Responsible	Original Date	Revised Date(s)
Data Management 2013/14	High	Information Governance & Programme Manager should include a review of paper based records in her continuing work	The Officer is concerned is currently away from work but progress on the level of paper records is being addressed through the Council's paperless project whilst the security of data is being reviewed as part of the preparation for the GDPR due to be implemented in May 18.	Executive Director	31/08/2014	31/03/2017
Fees & Charges 2014/15	High	The Finance Manager develops corporate guidance on the process of reviewing and setting fees and charges	Draft going to next Policy and Resources meeting. It has been circulated with CMT and Encor for review already.	Finance Manager (ENC)	31/01/2016	30/04/2017 31/01/2017 30/08/2016
Corporate Counter Fraud Arrangements 2014-15	Medium	Monitoring Officer also develops refresher training to keep employees aware of Counter Fraud arrangements	Currently doing the Counter Fraud CIPFA assessment which will identify any new areas of risk to inform the training approach. Should be complete by 31/3/17.	Executive Director (MO)	30/06/2015	31/03/2017 31/12/2016
Procurement - Contract Management 2015-16	Medium	Procurement Strategy	This has been started but has been delayed due to other commitments. A revised date of 31 March 2017 is proposed.	Section 151 Officer	31/03/2016	31/03/2017
S106 Agreements	Medium	Head of Planning Services should make arrangements to ensure that the PSAM's s106 monitoring responsibilities could be covered	Approach still being agreed	Head of Planning Services	31/10/2016	TBC
Fixed Assets 2015-16	Medium	Up to date Asset Management Plan	Work in progress	Head of Resources	01/10/2016	TBC

Audit Title and Year	Priority	Issue / Outstanding Action	Reason for Revised Implementation Timescale (provided from performance clinic report)	Officer Responsible	Original Date	Revised Date(s)
				and OD		
Health and Safety 2016-17	Medium	Fire Wardens	Maintenance and competency of Fire Wardens is part of Fire Evacuation report for CMT 7/2/17, but although all parts of site is covered, there is the need to ensure sufficient wardens are appointed.	NNRSP Manager	31/08/2016	TBC
Health and Safety 2016-17	Medium	Fire Safety Risk Assessment Action plan - Rushden	Evacuation drill undertaken. All aspects meet requirements of evacuation plan. Fire risk assessment to be reviewed as part of overall review with that of Thrapston's.	NNRSP Manager	31/10/2016	TBC

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.