



Governance & Audit Committee – 28th November 2018

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 2018/19 and associated measures of performance.

Attachment:

Appendix A: Progress Report for 2018/19 to week 31.

1.0 Background

- 1.1 LGSS provide the Internal Audit service for East Northamptonshire Council and have been commissioned to provide 230 days to deliver the 2018/19 Annual Audit Plan and support to the organisation.
- 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 Internal Audit service. In order to provide Members with the most current performance information the report analyses Internal Audit's performance to the end of week 31 (2nd November 2018).
- 2.2 At the time of reporting, final reports have been issued for six assignments. Fieldwork is underway or in planning stages for a number of further assignments. Full details are shown in Appendix A to the report.
- 2.3 Internal Audit actively monitors the implementation of recommendations arising from audit reports. Since the last Governance and Audit Committee meeting 26 actions had been completed. There are five overdue actions and, of these, four have been overdue for more than three months. Details of these overdue actions are to be provided by management at this Committee meeting.

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 which would impact upon the Internal Audit opinion. 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 Privacy Impact Implications

- 5.1 There are no privacy impact implications arising from this report.

6.0 Legal Implications

6.1 There are no legal implications arising from the report.

7.0 Risk Management

7.1 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.

8.0 Resource and Financial Implications

8.1 There are no resource or financial implications arising from the report.

9.0 Constitutional Implications

9.1 The report does not require any amendment to the Council's Constitution.

10.0 Customer Service Implications

10.1 There are no customer service implications arising from the report.

11.0 Corporate Outcomes


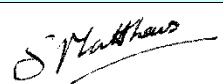
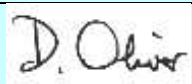
11.1 Effective Management - The Annual Audit Plan is designed to provide Members with assurance as to the effective management of the Council's most significant risks.

12.0 Recommendation

12.1 The Committee is recommended to

- (1) Note the progress and performance of the Internal Audit service 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: 13 th November 2018					
CFO 15/11/18		MO 15/11/18		CX 14/11/18	



EAST NORTHAMPTONSHIRE COUNCIL
INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE
NOVEMBER 2018



Date: 28th Nov ember 2018

Introduction

- 1.1 LGSS provides the Internal Audit service for East Northamptonshire Council and has been commissioned to provide 230 days to deliver the 2018/19 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 audit team.

Performance

2.1 Will the Internal Audit Plan for 2018/19 be delivered?

LGSS has been set the objective of delivering at least 90% of the Internal Audit plan for 2018/19 to draft report stage by the end of March 2019.

At the time of reporting, final reports have been issued for six audit assignments. Fieldwork is completed or underway on a further four 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 days commissioned. Any overruns on individual assignments are managed within the overall budget.

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

All responses from clients during the year to date have rated the Internal Audit service as 'Good' or 'Outstanding'. Responses are summarised in Table 2.

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

As at week 20, the team had been delivering 96% productivity, against the target set of 90%.

2.5 Are audit recommendations being implemented in a timely manner?

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 26 actions had been completed since the last update. There are five overdue actions and, of these, four have been overdue for more than three months.

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?

Since the last committee meeting, two reports from the 2018/19 audit plan have been finalised. There were no areas of significant weakness identified which would impact upon the Internal Audit opinion of the Council’s control framework. The key findings are provided below:

Enterprise Centre (Stage 1 – embedded assurance)


Development of the East Northamptonshire Enterprise Centre is included within the Council’s Corporate Plan and one of ten key work streams in Enterprising East Northants, the Council’s Economic Development Strategy. The project will support the Council’s vision of securing sustainable job growth and prosperity in the local community. The project was originally part of the Rushden East Sustainable Urban Extension work programme. In September 2017 it became apparent that there was a potential funding opportunity through the European Regional Development Fund (ERDF) to support up to 50% of the construction costs. To take advantage of this opportunity a work programme was developed to undertake the necessary preparations to meet the bid requirements and deadline. The project concept was approved by Council in October 2017 and specialist project management consultants appointed in November 2017. A suitable site was identified and an ERDF funding bid was submitted via the South East Midlands Local Enterprise Partnership (SEMLEP) in January 2018. Unfortunately, the funding bid was unsuccessful.

At the time of reporting it was evident that the project was being well managed and that appropriate governance arrangements were in place or being developed. There had been some slippage in the appointment of the design team due to the need to review funding options following the unsuccessful ERDF bid. However, funding arrangements had recently been approved by the Council and the project was back on track.

Action needs to be taken to ensure that internal staff resource requirements are clearly specified and that project governance arrangements are fully documented and evidenced - for example, documenting the benefits realisation process, development of the procurement strategy, preparation of a risk register and establishing the project reporting format. A communications plan also needs to be developed now that the project has resumed following the recent funding decision.

Based on the fieldwork completed, the following assurance opinions have been given by Internal Audit at this stage in the project:

Assurance Opinion		
Control Environment	Good	●
Compliance	Good	●

Organisational Impact	Minor 
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Staff Development and Training Effectiveness

The Performance and Development Review (PDR) system is part of the Council’s performance management framework. Its purpose is to provide a fair and consistent way to assist each employee to achieve a high standard of work performance; to enable the Council to achieve its key priorities and outcomes; and to identify employee training and development needs, in order to help them to achieve outcomes and manage their career at the Council.

A review of the PDR guidance identified that whilst it appears sufficient in detail and is available to all staff, some areas of improvement have been identified to enhance the efficiency and effectiveness of operations. Sample testing identified that the majority of controls are operating as intended, it is however noted, that a review of HR records identified that only 57% of staff had received an annual PDR from April 2017 to date at the time of reporting.



Whilst a formal, co-ordinated staff skills assessment process does not currently exist within the Council, staff training and development needs are discussed and agreed on an individual basis during the annual PDR process. It is also understood that a staff skills audit is due to be undertaken across the Council during the second quarter of this financial year. As such, this should aid the Council in assessing competencies; identifying talent / workforce skills gaps; and addressing further development needs.

A review of the corporate training and development plan and mandatory training register, determined that both are subject to regular monitoring and review. It is also evident that staff training and development is planned to support the delivery of the Council’s key priorities and outcomes.

Training budgets are formally approved as part of budget setting and subject to standard budget monitoring arrangements. A review of all paid purchase invoices from April 2017 to date identified that all training providers had been procured in accordance with good procurement practice.

The audit has identified that a formal process does not currently exist, in order to obtain feedback on the effectiveness of external staff training which is attended. As such, management may wish to explore this in more detail, to ensure that the relevant feedback is obtained and analysed, in order to aid decision-making and maximise value for money.










Based on the fieldwork completed, the following assurance opinions have been given by Internal Audit:







Assurance Opinion	
Control Environment	Good 
Compliance	Satisfactory 

Organisational Impact	Minor 
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Table 1 - Progress against 2018/19 Internal Audit Plan

Assignment	Budget days	Actual days	Planned start	Status	Assurance sought	Control Environment	Compliance	Org impact	Comments
Governance & Counter Fraud									
Information Governance and GDPR	15	7.9	Q3	Fieldwork underway					
Cyber Security	11	1.1	Q1	Fieldwork underway					
Key Corporate Policies & Controls									
Creditors	12		Q4						
Debtors	6		Q4						
Payroll	12		Q3						
Main Accounting System	10		Q3						
Treasury Management	9	8.9	Q1	Final report issued	<p><i>To provide assurance that: The treasury management function is conducted in line with statutory and regulatory requirements and best practice guidance; Investments are appropriately safeguarded; Transactions and records are complete, accurate and timely; and Returns on investments are managed appropriately.</i></p>	Good ●	Substantial ●	Minor ●	Reported to G&A Committee in September 2018
Procurement Compliance	6		Q3						

Assignment	Budget days	Actual days	Planned start	Status	Assurance sought	Control Environment	Compliance	Org impact	Comments
Council Procurement Cards	5	5	Q1	Final report issued	<i>To provide assurance over controls in place to ensure appropriate, authorised use of Council credit cards.</i>	Satisfactory 	Satisfactory 	Minor 	Reported to G&A Committee in July 2018
Business Continuity & Emergency Planning	11	3.8	Q3	Fieldwork underway					
Corporate Objective: Financial Stability									
Budgetary Control	10	9.7	Q2	Fieldwork complete					
Contract Management & Shared Services	14		Q3						
Corporate Objective: Customer Focused Services									
Staff Development and Training Effectiveness	12	12	Q1	Final report issued	<i>To provide assurance over the effective use of training budgets for staff and the Council's performance development appraisal process and how these support the delivery of corporate outcomes.</i>	Good 	Satisfactory 	Minor 	See para 2.5
Disabled Facilities Grants (DFGs)	8	9	Q2	Final report issued	<i>To provide assurance over the management and payment of DFGs and to support annual verification.</i>	Substantial 	Good 	Minor 	Reported to G&A Committee in September 2018
Enforcement Action in Environmental Services	10		Q3						

<i>Assignment</i>	<i>Budget days</i>	<i>Actual days</i>	<i>Planned start</i>	<i>Status</i>	<i>Assurance sought</i>	<i>Control Environment</i>	<i>Compliance</i>	<i>Org impact</i>	<i>Comments</i>
Corporate Objective: Regeneration & Economic Development									
Enterprise Centre – embedded assurance	12	12.5	Q1 – Q4	Final report issued	<i>To provide assurance that adequate controls exist to ensure that the project is suitably managed and risks are appropriately identified and mitigated.</i>	Good 	Good 	Minor 	See para 2.5
Corporate Objective: Sustainable Development									
Local Plan Project – embedded assurance	12	6.8	Q1 – Q4	Final report issued	<i>To provide assurance that adequate controls exist to ensure that the Local Plan project is being suitably managed and risks are appropriately identified and mitigated.</i>	Limited 	Limited 	Moderate 	Reported to G&A Committee in September 2018
Total	175	77							

Other Support	<i>Budget days</i>	<i>Actual days</i>	<i>Comments</i>
Advice & Assistance	2	1.2	
Committee Work, Support & Annual Report	15	7.8	
Recommendation Follow-Up and Client Meetings	10	3.6	

Other Support	Budget days	Actual days	Comments
External Audit liaison	1	0.4	
Strategic Mgt & Audit Planning	5	-	
NFI & AGS	2	-	
Unavoidable interruptions e.g. ICT interruptions / fire alarms etc.	-	-	
Management of the Internal Audit service	20	4.6	
Total	55	17.6	

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	-	-	3	-	-
Communication during Assignments	-	-	3	-	-
Quality of Reporting	-	1	2	-	-
Quality of Recommendations	-	-	3	-	-
Total	0	1	11	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	1	100%	13	81%	12	86%	26	84%
Actions due within last 3 months, but not implemented	-	%	-	%	1	7%	1	3%
Actions due over 3 months ago, but not implemented	-	%	3	19%	1	7%	4	13%
Totals	1	100%	16	100%	14	100%	31	100%

Limitations and Responsibilities

Limitations inherent to the internal auditor's work

LGSS Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Governance and Audit 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 Internal Audit 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 Internal Audit's attention. As a consequence, the Governance and Audit 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 Internal Audit'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.

Internal Audit 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.