



## Governance & Audit Committee – 30<sup>th</sup> January 2019

### 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 41.

#### 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 41 (11<sup>th</sup> January 2019).
- 2.2 At the time of reporting, final reports have been issued for seven 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 one action had been completed. There are four overdue actions and, of these, all 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



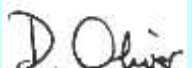
11.1 Effective Management - The Annual Audit Plan is designed to provide Members with assurance as to the effective management of the Council's most significant risks.

## 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)*

<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> 15 <sup>th</sup> January 2019					
<b>CFO</b> 16/01/19		<b>MO</b> 16/01/19		<b>CX</b> 16/01/19	



EAST NORTHAMPTONSHIRE COUNCIL  
INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE  
JANUARY 2019



Date: 30<sup>th</sup> January 2019

## ***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 seven audit assignments. Work is now either completed or underway on all audit assignments in the audit plan.

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 41, the team had been delivering 95% 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 updates provided in Table 3 demonstrate that one action has been completed since the last update. There are four overdue actions and, of these, all 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, one report from the 2018/19 audit plan has 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:

**Budgetary Control**

The public sector continues to face many challenges due to the rapid pace of change with regards to the way in which services are delivered; organisational structures and relationships; and ongoing reductions in government funding. As new policy developments are introduced, the need for effective governance and budgetary control arrangements to ensure probity and sound financial management remain undiminished.

Robust procedures exist for the budget setting / budget monitoring process and roles and responsibilities are clearly defined. A thorough and detailed manual and budget setting / budget monitoring timetables exist to aid budget managers in fulfilling their roles and responsibilities; it is however noted, that these documents are not currently available to staff via the Council's intranet.

A balanced budget was set for 2018/19, which was approved by Council on 26th February 2018. Whilst the Medium Term Financial Strategy (MTFS) projected a funding surplus for the end of this financial year, it is noted that the current forecast outturn position for 2018/19 is £122k (overspend). It is understood that this is mainly due to the under achievement of ICT savings forecast from the transformation programme, and as such, will reduce the anticipated contribution to reserves.




Budget data is promptly uploaded to the financial system (Civica Financials) and budget managers are able to access the financial system to review the budgetary position, in order to complete the budget monitoring process. Sample testing identified that in 81% of the cases, there was no record of the budget monitoring return, and / or agreement of any amendments to the forecast outturn position, or otherwise. Whilst it is recognised that budget monitoring information is obtained via other channels, details of this are not currently documented within the Council's budget monitoring timetable / manual.

A review identified that outstanding commitments totalled £104k as at 2nd November 2018. It is noted that a significant number of purchase orders had been raised over six months ago, and as such, may no longer be required, and may need to be removed from the financial system.

Material variances (over £10k) are reported to the Finance Sub-Committee on a quarterly basis, a summary of the main savings and pressures is provided, whilst a detailed breakdown by Head of Service is appended to the report.













Robust controls exist for the virements process, and sample testing identified that controls had operated as intended in the majority of cases. Management recognise that there are currently inconsistencies with regards to the 'technical' virements process, and as such, have agreed that a segregation of duties should exist, and should be consistently exercised moving forward.

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







<b>Assurance Opinion</b>		
<b>Control Environment</b>	<b>Good</b>	
<b>Compliance</b>	<b>Satisfactory</b>	
<b>Organisational Impact</b>	<b>Minor</b>	

**Table 1 - Progress against 2018/19 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>Control Environment</b>	<b>Compliance</b>	<b>Org impact</b>	<b>Comments</b>
<b>Governance &amp; Counter Fraud</b>									
Information Governance and GDPR	15	12.8	Q3	Draft report issued					
Cyber Security	11	1.1	Q1	Fieldwork underway					
<b>Key Corporate Policies &amp; Controls</b>									
Creditors	12	0.6	Q4	Fieldwork underway					
Debtors	6	0.3	Q4	Fieldwork underway					
Payroll	12	7.6	Q3	Fieldwork underway					
Main Accounting System	10	0.6	Q3	Fieldwork underway					
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>	<p><b>Good</b> ●</p>	<p><b>Substantial</b> ●</p>	<p><b>Minor</b> ●</p>	<p>Reported to G&amp;A Committee in September 2018</p>

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Procurement Compliance	6	1.2	Q3	Fieldwork underway					
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	9.9	Q3	Fieldwork complete					
<b>Corporate Objective: Financial Stability</b>									
Budgetary Control	10	11.6	Q2	Final report issued	<i>To provide assurance over the Council's framework for setting, monitoring and managing budgets to support ongoing financial stability and delivery of savings.</i>	Good 	Satisfactory 	Minor 	See section 2.5
Contract Management & Shared Services	14	-	Q4	Planning					
<b>Corporate Objective: Customer Focused Services</b>									
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 	Reported to G&A Committee in November 2018
Disabled Facilities Grants (DFGs)	8	10	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



<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>
Enforcement Action in Environmental Services	10	5.8	Q3	Fieldwork underway					
<b>Corporate Objective: Regeneration &amp; Economic Development</b>									
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 	Reported to G&A Committee in November 2018
<b>Corporate Objective: Sustainable Development</b>									
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
<b>Total</b>	<b>175</b>	<b>107</b>							

<b>Other Support</b>	<i>Budget days</i>	<i>Actual days</i>	<i>Comments</i>
Advice & Assistance	2	1.7	
Committee Work, Support & Annual Report	15	9.1	

<b>Other Support</b>	<b>Budget days</b>	<b>Actual days</b>	<b>Comments</b>
Recommendation Follow-Up and Client Meetings	10	6.2	
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	7.6	
<b>Total</b>	<b>55</b>	<b>25</b>	

**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	-	-	5	-	-
Communication during Assignments	-	-	5	-	-
Quality of Reporting	-	1	3	-	-
Quality of Recommendations	-	-	4	1	-
<b>Total</b>	<b>0</b>	<b>1</b>	<b>17</b>	<b>1</b>	<b>0</b>

**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	25%	-	-	1	20%
Actions due within last 3 months, but not implemented	-	-	-	-	-	-	-	-
Actions due over 3 months ago, but not implemented	-	-	3	75%	1	100%	4	80%
Totals	-	-	4	100%	1	100%	5	100%

**Table 4 – Actions overdue by more than three months**

Audit Title and Year	Priority	Issue / Outstanding Action	Latest update	Officer Responsible	Original Date	Revised Date(s)
Safeguarding 2017/18	Medium	Review posts that require a Standard DBS check.	Guidance sought from DBS lead, Essex County Council, and definitive list to be produced in January 2019.	Head of Resources	30/06/2018	31/01/2019
Planning – Use of Specialist Resources	Medium	<p>In-house skills should be developed within Planning Services through job shadowing and training activities. Such controls should assist the Council with regards to succession planning, achieving value for money and retaining key personnel.</p> <p>In addition, appropriate records should exist to provide assurance that:                      Training and development is undertaken by the relevant staff to ensure that the knowledge and skills of in-house resources are at the level required; and                      Staff PDRs are completed annually, and in accordance with agreed procedures.</p>	Advised that mentoring and job shadowing in place. Some PDRs yet to be completed.	Head of Planning Services	31/03/2018	31/01/2019
Planning – Use of Specialist Resources	Medium	<p>Workforce planning should be undertaken to identify which specialist resources are required, in order to deliver an effective and efficient Planning Service. This process should include an options appraisal to determine:                      The implications of ‘doing nothing’; the options for delivery i.e. shared service, buy in as needed, in-house, casual staff, contract out etc.; and the potential costs of each option and sources of funding.</p>	The Planning Development Manager is now in post and has been tasked with leading the review and updating of the Development Management Charter. This has been postponed until January 2019.	Head of Planning Services	22/12/2017	31/01/2019

## ***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.