



HARBOROUGH DISTRICT COUNCIL

INTERNAL AUDIT UPDATE

July 2015

Date: 14th July 2015

Introduction

- 1.1 The Welland Internal Audit Consortium provides the internal audit service for Melton Borough Council and has been commissioned to provide 235 audit days to deliver the 2015/16 Annual Audit Plan and undertake other work commissioned by the client.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Governance and 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 Delivery of the Audit Plan for 2015/16

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 2015/16 to draft report stage by the end of March 2016.

At the date of writing, three assignments are at draft report stage; and work is underway on a further two assignments. The team has, therefore, delivered 23% of the current year audit plan to at least draft report stage at the time of reporting. Progress on individual assignments is shown in Table 1.

2.2 Delivery within budget

Internal Audit is on target to deliver the audit plan within the 235 days budget. Any overruns on individual assignments are managed within the overall budget.

2.3 Client satisfaction

There have been no responses received to the Customer Satisfaction Questionnaire since the last committee meeting.

2.4 Productivity

As at the latest possible date for reporting purposes (week 9), the team has been delivering **87%** productivity against a target of 90%. In May 2015, a new Trainee Auditor was recruited to the team which has resulted in some additional management time for recruitment and induction procedures.

2.5 Emerging issues

At the time of reporting, no audits from the 2015/16 Internal Audit Plan have been finalised.

The key findings of all audit reports from the 2014/15 Plan are provided in the Annual Internal Audit Report.

Copies of all Internal Audit reports are provided to the Chairman of the Governance and Audit Committee when finalised and presented to the next available committee meeting.

2.6 **Outstanding audit recommendations**

At the date of reporting, there are 28 agreed management actions which are overdue for implementation. An analysis of the implementation of actions is provided in Table 2. Four of these actions were assessed as 'High Priority' and have been overdue for over three months. Full details of all overdue high and medium priority recommendations have been provided in Appendix C.

Table 1 - Progress against 2015/16 Internal Audit Plan

<i>Assignment</i>	<i>Assurance sought</i>	<i>Budget days</i>	<i>Actual days</i>	<i>Status</i>	<i>Planned start</i>	<i>Assurance Rating</i>	<i>Comments</i>
Fundamental Financial Systems							
Financial Systems Key Controls	To provide assurance that controls are in place to mitigate the key risks to the Council in respect of its financial systems.	30	0	Not started	Q3		
Financial Resilience	To review the Council's financial planning arrangements and the inclusion of appropriate contingency plans. To provide challenge to robustness of assumptions within the plans.	10	0	Not started	Q3		
Capital Programme	To review the Council's Capital Programme arrangements and the management of risks relating to strategy, governance, for example sufficient approval and review prior to capital projects becoming part of the Capital Programme, compliance with procurement rules once capital projects commence and the monitoring of the Capital Programme to ensure that projects are completed on time and within agreed budgets.	15	10.5	Draft report	N/A		
Governance							
Counter Fraud and Ethics Arrangements	The provision of Counter Fraud training for members and staff, which should incorporate an inclusion of Ethics requirements within the Council.	10	0	Not started	Q4		
Assurance Framework	To review the effectiveness of sources of assurance for the Council incorporating an assurance mapping exercise of assurances to the key strategic risks of the Council.	10	0	Not started	Q2		

<i>Assignment</i>	<i>Assurance sought</i>	<i>Budget days</i>	<i>Actual days</i>	<i>Status</i>	<i>Planned start</i>	<i>Assurance Rating</i>	<i>Comments</i>
IT							
Business Continuity and Third Party Agreements	To review controls relating to ICT Recovery arrangements in respect of the Third Party arrangements for the Council.	15	8.2	Draft report	N/A		
Service delivery							
Welfare Reform	To continue to review arrangements for monitoring and mitigating risks associated with Welfare Reform.	5	0	Not started	Q2		
Community Infrastructure Levy / s.106 Agreements	To review processes in place to maximise income potential from s.106 / CIL agreements for the Council.	15	0	Planning	Q2		
Customer Services Data	To review business continuity and data management and security arrangements in respect of the delegated customer series arrangements.	10	8.9	Draft report	N/A		
Licensing	To provide assurance that there are appropriate controls in place to effectively mitigate the risks relating to policies and procedures, applications, appeals, fees and their review, income collection and renewals.	10	2	Fieldwork in progress	N/A		
Planning Service Review	To undertake or assess a post implementation review of the Planning Service Review, i.e. to review benefits realisation and the achievement of planned objectives.	10	0	Not started	Q3		
Waste Management	To continue with the Embedded assurance approach commenced in February 2015.	20	0.9	Fieldwork in progress	N/A		

Assignment	Assurance sought	Budget days	Actual days	Status	Planned start	Assurance Rating	Comments
Housing Review	To provide embedded assurance support to the internal Housing Project.	10	0	Not started	Q2		
Other support							
Contingency		11	0				
Advice & assistance		2	0				
Recommendation follow-up		3	2.5				
Committee work, support & annual report		13	1.1				
Client meetings, liaison & management		15	1.5				
Consortium Management		21	4.8				
TOTAL		235	40.4				<i>17% (excludes 0.6 days for completion of 14/15 audits)</i>

Notes

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: 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	5	46%	15	47%	6	55%	26	48%
Actions due within last 3 months, but not implemented	2	18%	7	22%	4	36%	13	24%
Actions due over 3 months ago, but not implemented	4	36%	10	31%	1	9%	15	28%
Totals	11	100%	32	100%	11	100%	54	100%

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 Audit & 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 & 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 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.