

Internal Audit Update Report
APPENDIX A

*Internal Audit and Fraud Progress
Update - Q1*

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1 Introduction

- 1.1 This progress report provides stakeholders, including the Audit Committee, with a summary of Internal Audit and Counter Fraud activity undertaken for the period 1 April 2021 to 31 May 2021. In recognition of the high levels of changes arising from the formation of West Northamptonshire Council, in April 2021, a schedule of quarter one audits focusing on giving assurance over key financial processes during the early stages of the year, was agreed with the Executive Director of Finance, as part of the overall Audit Plan.
- 1.2 The quarter one schedule of work aimed to provide assurance over arrangements in place for consolidating information from the four sovereign Councils as well as new/continuing processes.
- 1.3 **Annex A** (page 7) provides the background and context for how Internal Audit operates including how governance is tested and evaluated and what the relevant Audit Opinions mean.
- 1.4 It is also highlighted that progress for quarter 1 of 2021-22 must have due regard to the work brought forward into April (and May) to close 2020-21 audit work across all sovereign councils and consolidate audit information (eg Annual Audit Opinions etc).

2 Progress summary

2.1 Plan Progress – Section 3 below

As at 31 May 2021 of 15 audits:

- 7 audits on the agreed Q1 schedule of work were at fieldwork stage
- 7 audits on the agreed Q1 schedule of work were at planning stage, with terms of reference agreed
- 1 audit has yet to be started

2.2 Implementation of Recommendations - Section 4 below

A record of recommendations not implemented by the sovereign Councils and carried forward for implementation by West Northamptonshire Council (WNC) is being collated and reviewed and will be reported to Committee in July 2021.

2.3 Counter Fraud - Section 5 below

21 WNC referrals were recorded by the Counter Fraud Team, since 1st April 2021.

2.4 Other work – section 6 below:

Internal Audit Team have been working to assist the Council with the new governance set up. This has included planning training and delivering training to new members of the Audit Committee.

2.5 Service Resources and Performance– Section 7 below

The service is currently working to interim arrangements and while there is sufficient resource to deliver the Q1 schedule of work, the permanent service structure remains delayed and therefore resource availability to deliver a full year's plan to support the Chief Internal Auditor's opinion remains contingent on this.

3 Progress against Quarter 1 schedule of work

- 3.1 A short-term target for Internal Audit is to complete its plan of work for Q1 by the 30 June 2021. These audits have been agreed with the s151 Officer to provide a focus on key controls and assurance on their operation in first few months of the Council's operations.
- 3.2 The Chief Internal Auditor and the s151 recognise that the delivery of the first years audit plan will face unique challenges. Realistically it will require time for service structures and responsibilities to be understood and also services themselves are facing challenges within their areas from the new organisational requirements combined with ongoing C19 issues that impact on their ability to support an audit. These factors are particularly relevant for the audits to be progressed in April, May and June and are considered likely to create some difficulties / delays in progressing individual audits.
- 3.3 The table below details all of the Quarter 1 schedule of work and their status

	Assignment	Audit Status
1	Consolidation of key records	Fieldwork in progress
2	Legacy Bank Accounts	Fieldwork in progress
3	Key Policies and Procedures	Fieldwork in progress
4	ERP IT users	Fieldwork in progress
5	Government Procurement Card	Fieldwork in Progress
6	Bank Reconciliation	Fieldwork in Progress
7	Business Grants	Fieldwork in Progress
8	Accounts Receivable – Debt management	Planning
9	General Ledger	Planning
10	Accounts Payable	Planning
11	Treasury Management	Planning
12	Payroll	Planning
13	Accruals	Planning
14	Income	Planning
15	Establishment checks	Not Started

4 Implementation of Management Actions

- 4.1 As detailed above, an exercise is in progress to consolidate outstanding recommendations brought forward from the sovereign Councils and to identify the relevant responsible officers within the new Authority. A consolidated Corporate Action Tracker is due to be presented to Audit Committee in July 2021.
- 4.2 Committee should note that as this will be the first Corporate Action Tracker record, for WNC, the majority of recommended actions will be in the process of being followed up or the action date has not been reached.

5 Counter Fraud Update Counter Fraud Update

- 5.1 Fraud cases are risk assessed, to assess whether detailed investigations are merited or alternative options to progress matters are more appropriate. Similar to the above, an exercise is in progress to consolidate all live cases as at 1st April from within sovereign Councils.
- 5.2 The table below sets out the cases referred to the Counter Fraud team during the period 1 April 2021 – 31 May 2021 and the outcomes achieved are detailed.

Fraud Type	No of Referrals	Status	Outcomes (1/4/21 -31/5/21)
Blue Badge misuse	5	Closed	Risk assessed and referred on to Parking Services
Housing & Ctax Benefits	11	Closed	Referred on to Department for Works and Pensions
Council Tax – single Persons discount	1	Closed	Risk assessed and referred on to Revenues and Benefits Team
Bank Mandate	1	Draft report	Investigated and draft report issued to Director of Finance. Issues to be considered within Internal Audit review within Q1.
Homelessness	3	Fieldwork	Being assessed

6 Other work undertaken

- 6.1 The Chief Internal Auditor has been working with the Executive Director of Finance to ensure that members new to the committee are trained on the role of the Audit Committee and to ensure that the committee is well supported.

7 Service Performance

7.1 Plan completion and productivity:

An internal Audit Plan for the full 2021/22 year is submitted to the Audit & Governance Committee for approval at the 16th June meeting.

In a normal year, the expected performance target is 95% of the Annual Plan to be completed to draft report stage by 31 March and 100% to draft report stage by 30 April.

Auditor productivity is measured with a target of 90% productivity (ie 90% of an Auditors time being allocated to client work ie auditing).

These can be measured after the approval of the plan, albeit it is highlighted that the Audit Plan for WNC is expected to change during the year, and the quarter one work is illustrative of a need to focus on providing focussed assurance on specific areas of control.

The AGC will be informed of all changes to the plan once approved.

7.2 Client satisfaction

During the year, customer surveys will be issued to Audit clients at the end of the audit assignments. The performance measure target in relation to customer surveys is 100% customers record satisfied or better.

Internal Audit Context and Background

Development of Audit Plans

The changing public sector environment increasingly necessitates an ongoing re-evaluation of the type and level of coverage required to give stakeholders the appropriate level of assurance on the control environment of the Council.

The Chief Internal Auditor must provide an annual internal audit opinion on the entire internal control environment based on an objective assessment of the framework of governance, risk management and control. This includes an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

To support this, internal audit must develop and deliver a risk-based plan which takes into account the organisation's risk management framework and includes an appropriate and comprehensive range of work, which is sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by stakeholders.

The WNC Audit Plan is developed from an understanding of the risks facing the Council. The Corporate Risk Register will be used as a key source of information, as is the Internal Audit risk assessment of the organisation.

In developing the plan, Internal Audit (IA) ordinarily consults services, Senior Managers, Management Team and the Audit Committee. Given the creation of the new organisation this has been more limited than would usually be the case for 2021-22. The Audit Committee then considers the plan. For the 2021/22 plan, this occurred at the June 2021 meeting.

The Audit Plan remains under frequent review both in terms of completion and its scope. Modern auditing requires the plans remain flexible to accommodate changes in the risk profile of the Council throughout the year.

The 2021/22 plan is based on *assurance blocks* that each give an opinion on the key control environment elements, targeted towards in-year risks, rather than a more traditional cyclical approach that looks at each system over a number of years. For each *assurance block*, the most appropriate level of coverage necessary to provide the most effective annual assurance opinion and added value to the organisation has been developed. The Audit Plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance, safeguarding and making every penny count.

How Controls are Audited and Evaluated

There are three elements to each internal audit review. Firstly, the CONTROL ENVIRONMENT is documented and assessed to determine how the governance is designed to deliver the service's objectives.

IA then needs to test whether COMPLIANCE is evident in practice.

Finally, IA undertakes further substantive testing and/or evaluation to determine the ORGANISATIONAL IMPACT of weaknesses found.

The tables below outline the criteria for assessing the above definitions:

Control Environment Assurance	
Assessed Level	Definitions
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance	
Assessed Level	Definitions
Substantial	Testing has proven that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.



Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Specifically for Grant certifications, definitions are used are as follows:

Opinion for Grant Certifications	
Level	Definitions
Assurance Given	The claim as certified was found to be in compliance with the grant conditions, subject to any observations reported.
No Assurance given	The claim was not certified as it was found to be not in compliance with the grant conditions.