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|  |  | cw audit services  **Kettering Borough Council**  Annual Internal Audit Report 2013/14  June 2014  Getting value from your service |

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# Introduction

This annual report provides my opinion (see section 2) as the Head of Internal Audit to Kettering Borough Council. It also summarises the activities of Internal Audit for the period 1st April 2013 to 31st March 2014.

The Council is required by law (Accounts & Audit Regulations 2011) to maintain an adequate and effective system of internal audit of its accounting records and internal control systems in accordance with proper internal audit practices. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide a written report to those charged with governance, to support the Annual Governance Statement, AGS), setting out:

* An opinion on the overall adequacy and effectiveness of the organisation’s control environment ;
* Disclose any qualifications to that opinion, together with the reasons for that qualification;
* Present a summary of the work carried out by Internal Audit during the year from which the opinion is derived, including any reliance that is being placed upon third party assurances;
* Draw attention to any issues the Head of Internal Audit deems particularly relevant to the Annual Governance Statement (AGS)
* Consider delivery and performance of the Internal Audit function against that planned;
* Comment on compliance with these Standards and the results of any quality assurance programme.

The Council should consider my opinion, together with management assurances, its own knowledge of the organisation and assurances received throughout the year from other review bodies (such as External Audit) when producing its AGS.

My opinion takes into account the range of individual opinions arising from risk-based audit assignments that have been reported throughout the year. An internal audit plan was developed to provide you with independent assurance on the adequacy and effectiveness of systems of control across a range of financial and organisational areas. **A summary of the work we have performed and delivery against the plan is provided in section 3.**

Alongside the delivery of the operational internal audit work, we have met regularly with Council management to ensure any issues regarding our performance could be highlighted and any necessary action taken to resolve these. Following each audit, management are also requested to provide feedback on the service received. We have received positive feedback on the level of service we have provided during the year.

# Annual Head of Internal Audit Opinion

**Roles and responsibilities**

The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

Internal Audit provides an independent and objective opinion to the organisation on the control environment and plays a vital part in advising the organisation whether these arrangements are in place and operating correctly.

The Annual Governance Statement (AGS) is an annual statement by the Leader, Chief Executive and s151 Officer that recognises, records and publishes an authority’s governance arrangements.

In accordance with PSIAS, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation’s risk management, control and governance processes (i.e. the organisation’s system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that Internal Audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans. As such, it is one of the sources of assurance that the organisation should take into account in making its AGS.

**The Head of Internal Audit Opinion**

My opinion is set out as follows:

1. Overall opinion;
2. Basis for the opinion;

My **overall opinion** is that **significant** assurance can be given that there is a generally sound system of internal control, designed to meet the organisation’s objectives, and that controls are generally being applied consistently. However, some weaknesses in the design and/or inconsistent application of controls were noted in certain audits completed during the year a number of these weaknesses are summarised in section three of this report.

The **basis** for forming my opinion is as follows:

1. An initial assessment of the design and operation of the underpinning risk management framework and supporting processes; and
2. An assessment of the range of individual opinions arising from risk-based audit assignments contained within internal audit risk-based plans that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management’s progress in respect of addressing control weaknesses.
3. Any reliance that is being placed upon third party assurances.

# Work undertaken during the year

**Summary of assurances provided**

During the course of the year we have conducted work to provide assurance over financial, governance and operational systems. Appendix One summarises the assurance levels we have given.

**Delivery of the plan**

An internal audit plan for 2013/14 of 258 days (fully delivered) was developed to provide you with independent assurance on the adequacy and effectiveness of systems of control across a range of financial and organisational areas. To achieve this our internal audit plan was divided into two broad categories; work on the financial systems that underpin your financial processing and reporting and then broader risk focused work driven essentially by principal risk areas that had been identified in your risk register. A summary of work undertaken is included below:

* During the year we have undertaken reviews of your core financial systems and given full or significant assurance with regard to the management of risk in these areas.
* We have undertaken a number of pieces of work on areas of principal risk. In general we have been able to conclude that these systems are robust and operate in a good control environment.
* In overall terms we have been able to provide full or significant assurance for 14 of the 20 individual audit assignment opinions we issued during 2013/14.

It is my view, taking account of the respective levels of assurance provided for each audit review, an assessment of the relevant weighting of each individual assignment and the extent to which agreed actions have been implemented, that you have a generally sound system of internal control.

We are pleased to report that our work has not highlighted any weaknesses that should be regarded as Significant Internal Control Issues that would require disclosure within your AGS. We did however identify some weaknesses in control that caused us to limit the level of assurance for certain audits we undertook:

* **Business Continuity:** This area was subject to review during the 2012/13 year. In view of the fact that only moderate assurance was provide at that time, the audit plan for 2013/14 was adjusted to make time for a further review of the Council’s Business Continuity arrangements. The current review highlighted that whilst some progress has been made, development of a fully functioning Business Continuity Management Strategy has not progressed in accordance with target dates agreed previously as part of the 2012/13 audit. The revised timetable currently targets effective Business Continuity plans to be in place by March 2015. Whilst some of the reasons for the delay are valid or understandable, we remain unable to provide assurance that Kettering Borough Council had effective Business Continuity Plans in place for its key services during the 2013/14 year.

* **Leisure Services – Contract Monitoring:** This audit highlighted that there was lack of financial performance information being provided to the Council from Pheonix Leisure Limited in respect of the Kettering Leisure Village. Action has subsequently been taken to include finance input to the performance review meetings held with Pheonix and there is now clarity over what financial information the Council requires. Whilst usage rates for the various leisure activities are reported on there was also a general lack of performance targets set to encourage Pheonix Leisure to seek proactive measures to increase leisure centre usage.
* **Training & Development:** The audit highlighted that the Council has been proactive in producing a Learning and Development Plan that provides for the identification and delivery of staff training requirements using a variety of methods. The audit did however identify that the Council’s system for conducting Personal Review and Development (PRD) process is not operating effectively and a number of issues have also been raised with regard to delivery of core training. A revised PRD system is planned for implementation during the Autumn of 2014 that will address the issues raised in our report.
* **Choice Based Lettings:** Following a moderate assurance opinion provided in 2012/13, the 2013/14 audit plan was flexed to provide time for a further review of Choice Based Lettings (CBL). The current review highlighted that a number of improvements have been made to the process,however **t**he significant workload required from the Housing Options Team continues to impact on its ability to meet the target of processing applications within 14 days of receipt. Additionally, improvements are required on the level of evidence retained on the CBL system in relation to home visits made to successful bidders, as well as to develop its capability to produce useful management information for monitoring and control purposes.
* **Voids Management:** This audit highlighted a number of weaknesses that senior management were already aware of and taking action to resolve, as well other control improvements that are necessary. Key issues included duplication of work by surveyors and lack of clarity of over service delivery responsibilities due to the service being delivered jointly by the Housing department and Environmental Care Services, the need for a more detailed specification for the cleaning service and non-delivery of the current void turnaround performance target.

**Third party assurances**

In arriving at our overall Annual Internal Audit Opinion, we have not sought to place reliance on any third party assurances.

**Following up of actions arising from our work**

All recommendations and agreed actions are subject to an ongoing recommendation tracking process that is facilitated by CW Audit Services, but completed by the relevant managers responsible for implementing the recommendations. This is undertaken on a self-assessment basis, but is supplemented by our independent follow-up reviews where this is deemed necessary (for example following the issue of a limited or moderate assurance report). A summary of the recommendation tracking results for the 2013/14 year is included as Appendix 2 to this report.

In addition elements of our work involve annual coverage of key areas of control for the organisation, such as in relation to key financial systems, and in such cases we also routinely follow up previously-agreed actions at each review.

**Closing remarks**

I have discussed and agreed this Annual Report and Audit Opinion with the Acting Head of Finance. Further detailed findings, conclusions and recommendations in the areas covered by our internal audit plan are covered within the progress reports and individual assignment reports that have been issued to the Committee during the year.

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| **Levels of Assurance – Individual Audit Assignments**  **Appendix One**   |  |  | | --- | --- | | **Audit Review** | **Level of Assurance** | | ***Core Financial & Governance Systems*** |  | | Financial Management | Full | | Main Accounting & Treasury Management | Full | | Payroll | Significant | | Council Tax | Significant | | Benefits | Full | | Procurement | Significant | | Risk Management | Significant | | ***Environmental Services*** |  | | Business Continuity | Moderate | | Crematorium Fees | Significant | | Markets | Significant | | ***Community Services*** |  | | Open Spaces, Pavilions & Sports Grounds | Significant | | Leisure Services – Contract Monitoring | Moderate | | ***Democratic & Legal Services*** |  | | Legal Services – Partnership Arrangements | Moderate | | ***Human Resources*** |  | | Training & Development | Moderate | | ***Development Services*** |  | | Planning & Development (inc S106) | Significant | | ***Housing Services*** |  | | Housing Rents | Significant | | Choice Based Lettings | Moderate | | Voids Management | Limited | | ***IT Reviews*** |  | | PSN Compliance | Significant | | ***Other*** |  | | National Fraud Initiative | Significant | |  | |
| |  |  | | --- | --- | | **Level of assurance** | **Criteria** | | Full | No significant risk issues identified | | Significant | Exposure to levels of risk that may only impair the effectiveness of the system or process under review | | Moderate | Exposure to levels of risk that render some elements of the system’s control environment undeliverable | | Limited | Exposure to unacceptable level of risk that could have a serious impact upon the system or process under review | | No | Exposure to unacceptable levels of risk that could have a serious impact upon the organisation as a whole | | |  |

**Summary of Internal Audit Recommendations**

**Appendix Two**

|  |  |  |  |  |  |  |  |  |  |  |
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| **Recommendations made in 2013/14** | | | | | | | |  | | |
|  | **Priority** | | **Number** | | |  | | **E** | | |
|  | **1**  **2**  **3**  **4** | | 0  15  49  11 | | |  | |  | | |
|  | **Total** | | 75 | | |  | |  | | |
|  |  | |  | | |  | |  | | |
| **Current status of all recommendations made and due for implementation by 31st March 2014 ( includes recommendations made in previous years)** | | | | | | | | |  | | |
|  | **Priority** | **Number** | | **Impl** | **O/S** | |  | | |
|  | **1**  **2**  **3**  **4** | **0**  **15**  **57**  **13** | | 0  8  33  10 | 0  7  24  3 | |  | | |
|  | **Totals** | **85** | | **51** | **34** | |  | | |

Progress has been made in implementing action for the majority of the recommendations that remain outstanding and revised implementation dates have been agreed with relevant officers.

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| Definition of our risk rankings  |  |  | | --- | --- | | Risk ranking | Assessment rationale | | **1** | The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, and which may also impact on the delivery of one or more of the organisation's strategic objectives. | | **2** | The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, but which are unlikely to impact on any of the organisation's strategic objectives. | | **3** | The system has been subject to medium levels of risk that have, or could, impair the system from meeting its objectives. | | 4 | The system has been subject to low levels of risk that have, or could, reduce its operational effectiveness. | |