

Kettering Borough Council

Internal Audit Annual Report & Opinion 2018/19

May 2019



cw audit
audit and assurance services

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1 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 2018 to 31st March 2019.

The Council is required by the Accounts & Audit Regulations 2015 to “to undertake an adequate and effective internal audit of its accounting records and of its system of internal control, taking into account public sector internal auditing standards or guidance”. 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 can be highlighted and any necessary action taken to resolve these. Following each audit, management are also requested to provide feedback on the service received. No significant issues or concerns regarding the internal audit service have been raised to date.

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

2 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 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 component that the organisation takes 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 weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.

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.

3 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 2018/19 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 finance systems and given full or significant assurance with regard to the management of risk in these areas.
- Key income and expenditure systems such as Housing Rents, Council Tax, Business Rates and Benefits have been subject to detailed audit review and controls were found to be operating effectively.

- 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.

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 we could give in the following areas:

- **Procurement:** The review concluded that the Council has made a significant amount of progress over the last 12 months in implementing robust procurement processes that ensure compliance with legislation and deliver proper VFM. The application of consistent and robust procurement processes had previously been identified by senior management as a weak area that needed strengthening, so it is pleasing to note the extent of progress made following our 2016/17 review in this area. This audit did however note that further work is required to ensure that the Contracts Register, which is a key document used to identify future Procurement Workplans, includes material levels of spend with all existing suppliers.
- **Health & Safety:** The review highlighted that a number of the H&S risk assessments saved on the safety drive were out-of-date, although further investigation undertaken by NNSRP indicates that some departments have been maintaining H&S records locally, but not stored on the safety drive. Our audit indicated that some managers believed that it was the Safety & Resilience's role to undertake H&S assessments, although policy and procedures make it clear that this is not the case.

- **Business Continuity:** Internal audit first commented on the lack of a formally documented Corporate Business Continuity Plan for the Council in 2012/13. Since then, numerous initiatives have been run by the resilience team to gather the required information from service area managers to begin the documentation process. This audit confirmed that there continued to be a poor response to the resilience team's most recent request for templates to be completed and returned from service areas, which in turn means that no progress had been made in formulating the Corporate Business Continuity Plan.
- **Homelessness:** Whilst the Council has made some progress in reducing the number of households in the costliest forms of temporary accommodation (B&B and nightly paid); the Council continues to face challenges in finding accommodation for an increasing number of homeless households, which has caused significant cost pressures during 2018/19. The Council implemented some significant changes to its homelessness systems and processes during 2018/19 in response to the requirements of the Homelessness Reduction Act. These have taken time to bed down and the audit made some recommendations in relation to improving documentation to demonstrate compliance with the Act.

Third party assurances

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

Following up of actions arising from our work

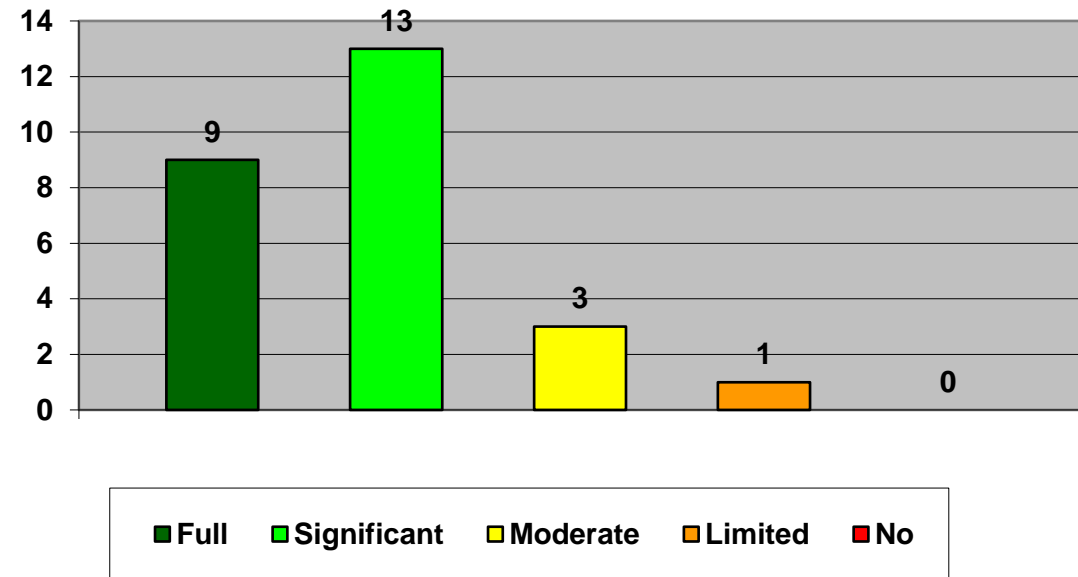
All recommendations and agreed actions are subject to an ongoing recommendation tracking process that is facilitated by CW Audit Services, but completed by the relevant managers responsible for implementing the recommendations. This is undertaken on a self-assessment basis, but is supplemented by our independent follow-up reviews where this is deemed necessary (for example following the issuance of a limited or moderate assurance report). A summary of the recommendation tracking results for the 2018/19 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.

4 Quality Assurance

All audits have been conducted in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), which includes evidenced review by senior management of all audit files and reports produced. I can confirm that there have been no issues of non-compliance with the PSIAS during the course of the year. CW Audit's systems and processes for complying with PSIAS were confirmed as appropriate to need by an external assessment that was carried out in April 2018. I can confirm that all audits completed during 2018/19 were carried out in accordance with these systems and processes.

Levels of Assurance – Individual Audit Assignments

Description of audit	Assurance level
Financial Management & Reporting	Full
Finance Systems – Access & Security	Full
Creditors	Significant
Payroll	Full
Capital Accounting	Significant
Risk Management	Significant
Insurance	Significant
IT Audit – Cyber Security Follow Up	Significant
Procurement	Moderate
Income & Debtors	Full
Council Tax	Full
Business Rates	Full
Benefits	Full
Income & Payment Systems - IT Security & Access	Full
Health & Safety	Moderate
Business Continuity	Limited
Emergency Planning	Significant
Pavilions, Community Centres & Outdoor Recreation	Significant
Burial & Crematorium Fees	Full
Markets	Significant
Member Services	Significant
Building Control	Significant
Housing Rents	Significant
Reinventing Repairs	Significant
Homelessness	Moderate
New Build Council Housing	Significant
Disabled Facilities Grant	N/A

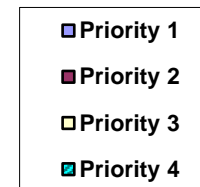
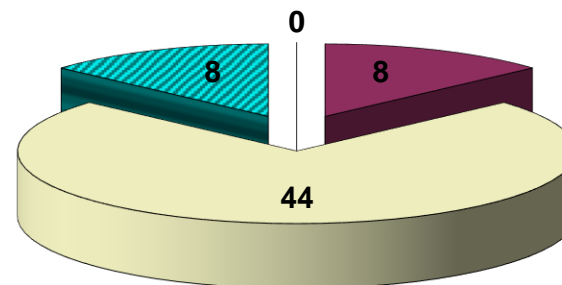


Level of assurance	Criteria
Full	No significant risk issues identified.
Significant	Exposure to levels of risk that may only impair the effectiveness of the system or process under review.
Moderate	Exposure to levels of risk that render some elements of the system's control environment undeliverable.
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

Recommendations made in 2018/19

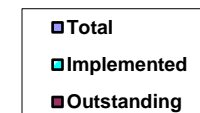
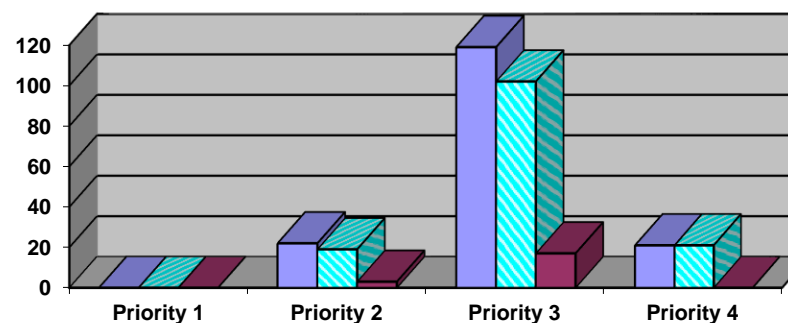
Priority	Number
1	0
2	8
3	44
4	8
Total	60



Current status of all recommendations due for implementation by 31st March 2019

(N.B. including recommendations made from 2015/16 to 2018/19, but excluding 2018/19 recommendations that fall due for implementation after 31st March 2019)

Priority	Number	Implemented	Outstanding
1	0	n/a	n/a
2	22	19	3
3	119	102	17
4	21	21	0
Total	162	142	20



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.