



cw audit services

Kettering Borough Council

Annual Internal Audit Report 2012/13
April 2013

Getting value from your service

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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 2012 to 31st March 2013.

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. No significant issues or concerns regarding the internal audit service have been raised to date.

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 by the Leader and Chief Executive 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 weaknesses in the design and/or inconsistent application of controls were noted in certain audits completed during the year and the more material 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.

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 2012/13 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.

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, or in the case of Creditor Payments, for one particular element of the system:

- **Building Control:** At the time of audit there was a significant backlog of applications on the system, dating back a number of years, where work has started, but it is unknown whether work has been completed. There were also almost 500 applications that were more than three years old, but for which no work has started. Action is required to review and take action on these backlogs. A recommendation was also raised to develop some key performance indicators for the Building Control service.
- **Business Continuity:** Kettering Borough Council has made some progress towards developing a Business Continuity Plan by developing a Business Continuity Strategy, but a fully documented and embedded Business Continuity Plan that effectively describes how the Council would prioritise and deliver its key services in the event of a major systems failure or event does not currently exist.
- **Choice Based Lettings:** The significant workload required from the Housing Options Team has impacted 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 Arbitas system in relation to home visits made to successful bidders and there is a general requirement to review the level of access to the Arbitas system as well as to develop its capability to produce useful management information for monitoring and control purposes.
- **Housing Responsive Repairs:** The system used to record and track jobs (Callsys) often lacks important management information necessary to confirm overtime costs and ensure that all jobs are delivered effectively, efficiently and economically. This lack of accurate information has contributed towards a general lack of appropriate management and monitoring controls operating. Some level 3 and 4 (i.e. low) priority jobs that did not require specialist skills were also found to be issued to contractors rather than using the existing in-house team.
- **IT Asset Management:** The audit highlighted a number of areas where improvements were necessary, including the need to improve physical security and documented records of IT assets, keep accurate records of disposals and stock movements, introduce periodic physical verification of IT assets by users and introduce fire protection measures in the IT stock room.
- **Creditor Payments:** Whilst we were able to provide an overall Significant level of assurance for this review, we did raise concerns over one particular element of the system in that a significant number of payments appear to be made without an official order having first been placed in cases where it could reasonably be expected that an official order should have been raised. Management are currently investigating the list of payments highlighted by audit with a view to amending the list of goods and services that are exempt from official orders where applicable and providing further training in cases where no valid reasons for not raising an order can be found.

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 issue of a limited or moderate assurance report). A summary of the recommendation tracking results for the 2012/13 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.

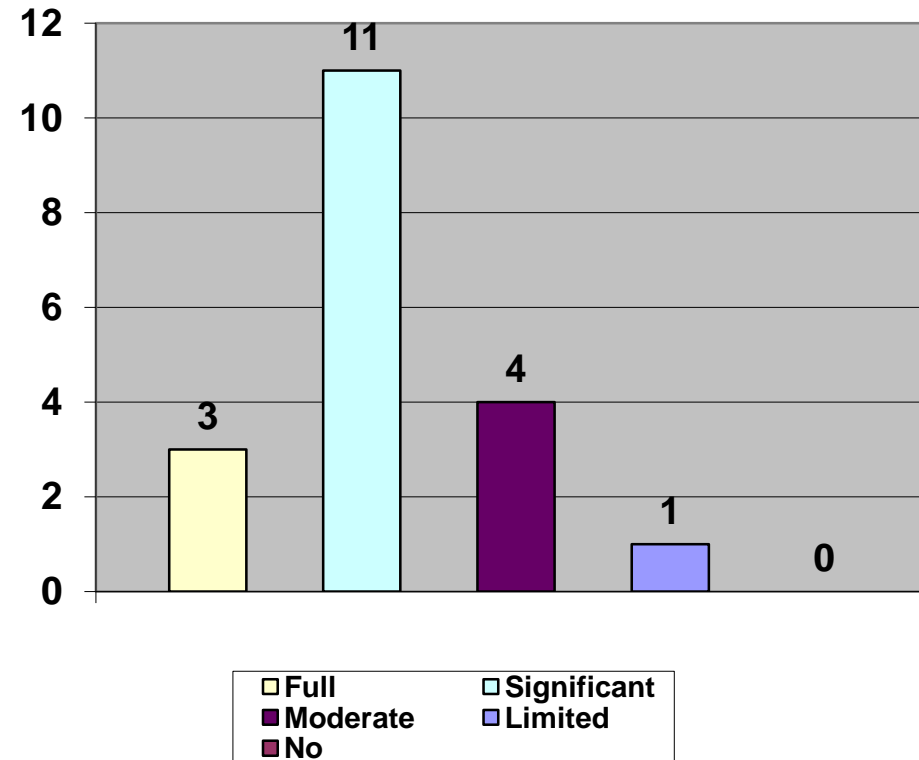
Closing remarks

I have discussed and agreed this Annual Report and Head of Internal 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.

Levels of Assurance – Individual Audit Assignments

The full audit plan for the 2012/13 year totalled 252 days, all of which has been delivered. The following table summarises the opinions given for individual audit assignments delivered.

Audit Review	Level of Assurance
Core Financial Systems	
Capital Accounting and Fixed Assets	Full
Council Tax	Full
NNDR	Significant
Creditors	Significant
High level Financial Controls	Full
Benefits	Significant
Sundry Debtors	Significant
Corporate Reviews	
Partnership Arrangements	Significant
Business Continuity	Moderate
Performance Information	Significant
Project Management	Significant
Other Systems Reviews	
Building Control	Moderate
Disabled Facilities Grants	Significant
Waste Services	Significant
Car Parking & Enforcement	Significant
Choice Based Lettings	Moderate
Housing Repairs (Responsive)	Limited
IT Audit Reviews	
IT Asset Management	Moderate
Software Licensing	Significant

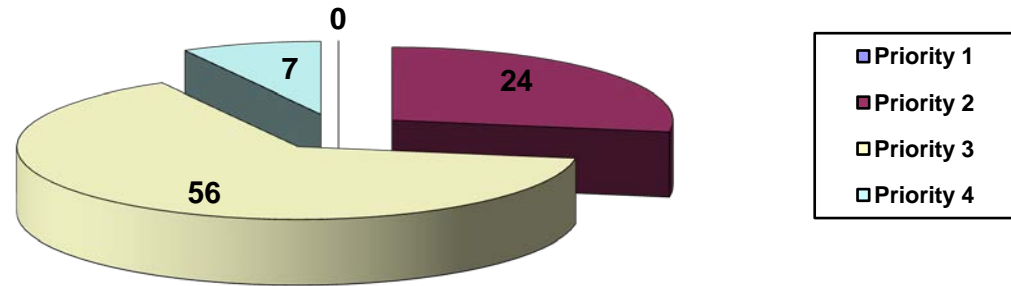


Level of assurance	Criteria
Full	No significant risk issues identified
Significant	Exposure to levels of risk that may only impair the effectiveness of the system or process under review
Moderate	Exposure to levels of risk that render some elements of the system's control environment undeliverable
Limited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

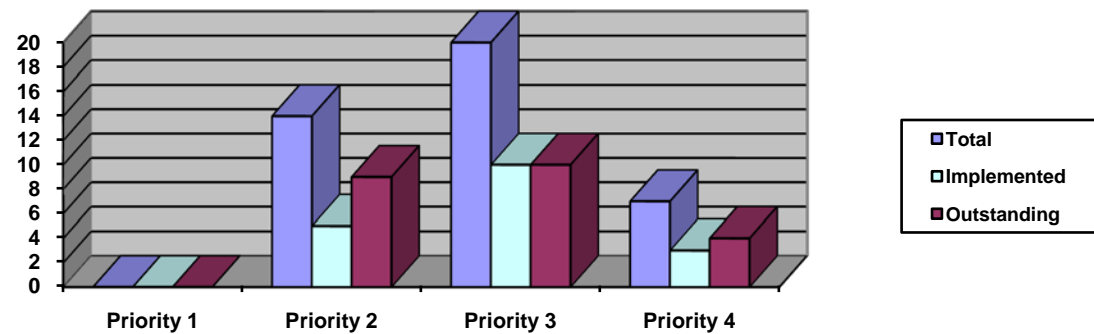
Recommendations made in 2012/13

Priority	Number
1	0
2	24
3	56
4	7
Total	88



Current status of all recommendations made and due for implementation by 31st March 2013

Priority	Number	Impl	O/S
1	0	0	0
2	14	5	9
3	20	10	10
4	7	3	4
Totals	41	18	23



Of the outstanding recommendations, three level 2 and three level 3 recommendations remained outstanding as a result of unavoidable circumstances and revised dates have been provided.

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.