

# Eastern Internal Audit Services



North Norfolk District Council

Progress Report on Internal Audit Activity

Period Covered: from 30 August 2019 to 21 November 2019

Responsible Officer: Faye Haywood – Internal Audit Manager for North Norfolk District Council

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**1. INTRODUCTION**

- 1.1 This report is issued to assist the Authority in discharging its responsibilities in relation to the internal audit activity.
- 1.2 The Public Sector Internal Audit Standards also require the Chief Audit Executive to report to the Audit Committee on the performance of internal audit relative to its plan, including any significant risk exposures and control issues. The frequency of reporting and the specific content are for the Authority to determine.
- 1.3 To comply with the above this report includes:
  - Any significant changes to the approved Audit Plan;
  - Progress made in delivering the agreed audits for the year;
  - Any significant outcomes arising from those audits; and
  - Performance to date.

**2. SIGNIFICANT CHANGES TO THE APPROVED INTERNAL AUDIT PLAN**

- 2.1 At the meeting on 26 March 2019 the Annual Internal Audit Plan for the year was approved, identifying the specific audits to be delivered. Since the last Committee meeting in September 2019 the following changes have been made:

<b>Audit</b>	<b>Reason for Change</b>
Sheringham Leisure	At the September 2019 Committee meeting, members agreed to an additional audit of the Sheringham Leisure Centre. Five days have been added to the 2019/20 internal audit plan.
Egmere	At the September 2019 Committee meeting, members agreed to a lesson's learnt review of the Egmere project. Five days have been added to the 2019/20 internal audit plan.

**3. PROGRESS MADE IN DELIVERING THE AGREED AUDIT WORK**

- 3.1 The current position in completing audits to date within the financial year is shown in **Appendix 1** and progress to date is in line with expectations.
- 3.2 In summary 64 days of programmed work has been completed, equating to 34% of the revised Internal Audit Plan for 2019/20.

**4. THE OUTCOMES ARISING FROM OUR WORK**

- 4.1 On completion of each individual audit an assurance level is awarded using the following definitions:

**Substantial Assurance:** Based upon the issues identified there is a robust series of suitably designed internal controls in place upon which the organisation relies to manage the risks to

the continuous and effective achievement of the objectives of the process, and which at the time of our review were being consistently applied.

**Reasonable Assurance:** Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisation’s management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.

**Limited Assurance:** Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.

**No Assurance:** Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.

4.2 Recommendations made on completion of audit work are prioritised using the following definitions:

**Urgent (priority one):** Fundamental control issue on which action to implement should be taken within 1 month.

**Important (priority two):** Control issue on which action to implement should be taken within 3 months.

**Needs attention (priority three):** Control issue on which action to implement should be taken within 6 months.

4.3 In addition, on completion of audit work “Operational Effectiveness Matters” are proposed, these set out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services. These are for management to consider and are not part of the follow up process.

4.4 During the period covered by the report two Internal Audit reports have been issued:

Audit	Assurance	P1	P2	P3
Coastal Management	Substantial	0	0	0
Section 106 Agreements	Reasonable	0	5	0

The Executive Summary of this report is attached at **Appendix 2**, a full copy can be requested by Members.

4.5 As can be seen in the table above as a result of these audits five recommendations have been raised during this period.

4.7 It is pleasing to note that these audits concluded with a positive opinion being awarded, indicating a strong and stable control environment to date, with no issues that would need to be considered at year end and included in the Annual Governance Statement.

## **5. PERFORMANCE MEASURES**

- 5.1 The Internal Audit Services contract includes a suite of key performance measures against which the contractor will be reviewed on a quarterly basis. There is a total of 11 indicators, over 4 areas.
- 5.2 There are individual requirements for performance in relation to each measure; however performance will be assessed on an overall basis as follows:
- 9-11 KPIs have met target = Green Status.
  - 5-8 KPIs have met target = Amber Status.
  - 4 or below have met target = Red Status.

Where performance is amber or red a Performance Improvement Plan will be developed by the contractor and agreed with the Internal Audit Manager to ensure that appropriate action is taken.

- 5.3 Quarter two of the 2019/20 Internal Audit plan has now been completed and a report on the performance measures provided to the Internal Audit Manager. Performance is currently at green status with targets having been satisfactorily met.
- 5.4 In addition to these quarterly reports from the Contractors Audit Director, ongoing weekly updates are provided to ensure that delivery of the audit plan for the current financial year is on track. No concerns have been raised.

## APPENDIX 1 – PROGRESS IN COMPLETING THE AGREED AUDIT WORK

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations				Date to Committee
							Urgent	Important	Needs Attention	Op	
<b>Quarter 1</b>											
Car Parking	NN2008	10	10	10	Final report issued 8 July 2019	Reasonable	0	3	3	0	Sep-19
Project Management	NN2001	6	6	6	Final position statement issued 15 August 2019						Sep-19
<b>TOTAL</b>		<b>16</b>	<b>16</b>	<b>16</b>							
<b>Quarter 2</b>											
Coastal Management	NN2002	10	10	10	Final report issued 8 October 2019	Substantial	0	0	0	0	Dec-19
Section 106 Agreements	NN2004	10	10	10	Final report issued 12 November 2019	Reasonable	0	5	0	0	Dec-19
<b>TOTAL</b>		<b>20</b>	<b>20</b>	<b>20</b>							
<b>Quarter 3</b>											
Sheringham Leisure Centre (addition)	NN2018	0	5	3	Audit underway. Final report due 5 December 2019						
Accountancy Services	NN2005	16	16	8	Audit underway. Final report due 12 January 2020						
Accounts Receivable	NN2006	10	10	5	Audit underway. Final report due 3 January 2019						
Income	NN2007	7	7	2	Audit underway. Final report due 3 January 2019						
Planning Application and Development Management	NN2009	10	10	0	Audit due to start 10 December 2019						
<b>TOTAL</b>		<b>43</b>	<b>48</b>	<b>18</b>							
<b>Quarter 4</b>											
Leisure	NN2003	10	10	0							
Risk Management	NN2010	6	6	0							
Key Controls and Assurance	NN2011	15	15	0							
Procurement	NN2012	10	10	0							
Property Services	NN2013	12	12	0							
Affordable Housing and Housing Enabling	NN2014	10	10	0							
<b>TOTAL</b>		<b>63</b>	<b>63</b>	<b>0</b>							
<b>IT Audits</b>											
Business Continuity	NN2015	10	10	0							
Cyber Security	NN2016	10	10	5	Audit underway. Final report due 11 December 2019						
GIS Application	NN2017	10	10	0							
<b>TOTAL</b>		<b>30</b>	<b>30</b>	<b>5</b>							
<b>Follow Up</b>											
Follow Up	NA	10	10	5							
<b>TOTAL</b>		<b>10</b>	<b>10</b>	<b>5</b>							
<b>TOTAL</b>		<b>182</b>	<b>187</b>	<b>64</b>			<b>0</b>	<b>8</b>	<b>3</b>	<b>0</b>	
<b>Percentage of plan completed</b>				<b>34%</b>							

## APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES

### Assurance Review of the Coastal Management Arrangements

#### Executive Summary

##### OVERALL ASSURANCE ASSESSMENT



##### ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Total	0	0	0	0

No recommendations have been raised in respect of any area within the scope of this audit.

##### SCOPE

The Coastal Partnership East has been set up to manage the coast between Holkham and Landguard Point in Felixstowe and involves a number of local councils. Our review evaluated the effectiveness of partnership working to provide assurance that risks relating to individual coastal protection projects are being managed effectively. In particular, the audit considered project identification and initiation, project management, performance and evaluation, and management reporting.

## **RATIONALE**

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- The systems and processes of internal control are, overall, deemed 'Substantial' in managing the risks associated with the audit. The assurance opinion has been derived as a result of no recommendations being raised upon the conclusion of our work.
- A previous audit on coastal management was undertaken in 2015/16, covering strategy and governance, financial management and contract monitoring for coastal projects. The audit concluded in a 'Reasonable' assurance opinion, indicating a positive direction of travel in the level of control.

## **POSITIVE FINDINGS**

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It is acknowledged there are areas where sound controls are in place and operating consistently:

- A comprehensive business case for the Sandscaping project was prepared and approved, to ensure that the project was justified prior to commencement.
- The Council obtained funding from the Bacton gas terminal operators, the Environment Agency, its own reserves and local sources, to ensure that the project was financially viable.
- The budget position is monitored on a monthly basis, with updates on expenditure and cost sharing provided to the steering committee, to ensure that all parties are aware of their financial commitments.
- Contractors involved in the project were appointed following an appropriate procurement process, to ensure that Council policies and statutory requirements were fulfilled.
- A project steering committee was set up and received monthly updates on progress with the project, to ensure effective decision making and prompt resolution of issues identified.
- A risk register for the project has been created and is regularly updated, to ensure that risks can be managed effectively.

## **THERE ARE NO ISSUES TO BE ADDRESSED**

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### Previous audit recommendations

The previous audit report on Coastal Management (NN/15/01) was issued in August 2014, concluding in an 'adequate' assurance opinion (equivalent to 'reasonable' in the current scale). The scope of that audit was slightly difference, covering strategy and governance, financial management and contract monitoring for coastal projects. Two medium priority recommendations were raised in the report and both have been verified as complete as part of Internal Audit's follow up process.

# Assurance Review of the Section 106 (S106) Agreements Arrangements

## Executive Summary

### OVERALL ASSURANCE ASSESSMENT



### ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Record keeping and monitoring	0	4	0	0
Expenditure	0	1	0	0
<b>Total</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>0</b>

No recommendations have been raised in relation to internal processes and involvement of other services.

### SCOPE

A review of S106 Agreements, including the processes in place for managing and monitoring these key schemes, was completed as part of the agreed audit plan for 2019/20. The audit focused on the effectiveness and efficiency of the control environment, particularly in respect of record keeping and monitoring, expenditure, internal processes and involvement of other services.



## RATIONALE

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- The systems and processes of internal control are, overall, deemed 'Reasonable' in managing the risks associated with the audit. The assurance opinion has been derived as a result of five 'important' recommendations being raised upon the conclusion of our work.

## POSITIVE FINDINGS

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It is acknowledged there are areas where sound controls are in place and operating consistently:

- A complete list of S106 agreements since 2009 has been produced, to ensure that the new system has a complete record from its implementation.
- All necessary consultations are conducted for new S106 agreements, with other Council departments and third parties, to ensure that the Council's interests are protected.

## ISSUES TO BE ADDRESSED

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The audit has highlighted the following areas where five 'important' recommendations have been made.

### Record keeping and monitoring

- A systematic process for recording and monitoring the obligations and triggers from S106 agreements is developed, to reduce the risk of these obligations not being identified when they fall due.
- Deadlines for spending S106 money are recorded and monitored against sums received by a designated officer, to reduce the risk of them being eligible to be repaid.
- The legal position for monies held and / or spent past the given deadline in the S106 agreements to be clarified, to reduce the risk of legal challenge from developers and potential repayment of monies no longer held.
- Parish and town councils be regularly informed of S106 monies that are available for use in their parish, so as to reduce the risk of such funds not being used as intended.

## **Expenditure**

- A process for approving expenditure of S106 monies be agreed, to reduce the risk that monies are spent otherwise than in accordance with the agreement.

## **Operational Effectiveness Matters**

There are no operational effectiveness matters for management to consider.

## **Previous audit recommendations**

- The most recent audit which included S106 agreements was an audit of Development Management (NN/15/03) which was completed in September 2014. Control issues in relation to S106 agreements were identified, although no new recommendations were raised. In the previous audit of Development Management in May 2011 (NN/11/12), two medium priority recommendations regarding S106 agreements were raised, of which one has been completed. There is one outstanding internal audit recommendation relating to S106 agreements, which was first raised in 2011. This relates to the assignment of responsibilities for monitoring and managing S106s. This outstanding recommendation links to the broader issues and the new recommendations raised within this report and it is intended that this recommendation will also be addressed through the implementation of the new S106 monitoring system.