



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council

Internal Audit Progress Report August 2017

1. Introduction

- 1.1 The assurances received through the Internal Audit programme are a key element of the assurance framework required to inform the Annual Governance Statement. The purpose of this report is to highlight the progress against the 2017/18 Internal Audit Plan up to 31 August 2017 and inform the Audit and Governance Committee of any significant control failings that have been identified through Internal Audit work.

2. Purpose of Internal Audit

- 2.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit play a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to Internal Audit activity should lead to strengthening of the control environment, and therefore contribute to the achievement of the organisation's objectives.
- 2.2 Internal Audit provide a combination of assurance and consulting/advisory activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

3. Authority of Internal Audit

- 3.1 Internal Audit derives its authority from the Accounts and Audit Regulations 2015, the Internal Audit Charter and the Council's Constitution. The Financial Regulations, which are part of the Constitution, set out that 'Internal Audit has authority to:
- a) enter any Council owned or occupied premises or land at all times (subject to any legal restrictions outside the Council's control);
 - b) have access at all times to the Council's records, documents and correspondence;
 - c) require and receive such explanations from any employee or member of the Council as he or she deems necessary concerning any matter under examination; and
 - d) require any employee or member of the Council to produce cash, stores or any other Council owned property under their control.
 - e) The Senior Auditor shall have access to, and the freedom to report in his/her name to all boards, members or officers, as he/she deems necessary.

4 Responsibility of Internal Audit

- 4.1 Internal Audit will have the responsibility to review, appraise and report as necessary on:
- a) the adequacy and effectiveness and application of internal controls and processes and systems;
 - b) the extent of compliance with Financial Regulations and Standing Orders and approved policies and procedures of the Council plus the extent of compliance with external laws and regulation; and
 - c) the extent to which the Council's assets and interest are accounted for and safeguarded from losses of all kinds arising from waste, inefficient administration, poor value for money, fraud or other cause.

5 Independence of Internal Audit

- 5.1 Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. Internal Auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made.
- 5.2 If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to senior management and the Audit and Governance Committee.

6 Internal Audit Team Update

- 6.1 Following a review by the NWLDC HR Team the Senior Auditor job title is now Audit Manager. The Audit Manager will be going on maternity leave in November and NWLDC are in the process of recruiting to cover this post.

7 Internal Audit Plan Update

- 7.1 A progress report against the 2017/18 Internal Audit Plan is documented in Appendix A. The plan needs to be flexible in order to respond to current risks and resources. There have been several changes to the plan approved in March 2017 and details are documented in the 'comments' column in Appendix A.
- 7.2 Three final reports have been issued since the last update report, two are at the report drafting stage and three are in progress. The executive summaries for the final reports issued are included in Appendix B.
- 7.3 The S106 audit opinion was a grade 3 as in our opinion, internal controls require significant improvement. The main areas identified for improvement are:
- Provision of dedicated resource.
 - Procedure notes required for all aspects of the process.
 - Recording and monitoring of S106 agreements and conditions.
 - Calculation and monitoring of payment of invoices raised.
 - Accuracy and reconciliation of information held across the Council.

A number of recommendations have been made (detailed in Appendix C) to address the weaknesses. Internal Audit follow up work during September has found that progress has been made however some of the original target dates have been extended to take into account the time taken to properly research, decide and implement the most appropriate long term solution for the system to be used by NWLDC. At this point Internal Audit are not concerned about this and will continue to regularly review progress.

- 7.4 In addition to the assurance and advisory work carried out, Internal Audit has also led an investigation in the Housing Repairs Service which concluded in June 2017. Following this Internal Audit produced a report for senior management which detailed control weaknesses identified during the investigation and made a number of recommendations to address these. All recommendations were accepted and Internal Audit will formally follow these up in line with the timescales agreed in the report. A full audit of the Housing Repairs Service will be carried out in quarter four and the results will be reported back to Audit and Governance Committee.

8 Internal Audit Recommendations

- 8.1 Internal Audit monitors and follows up all critical, high and medium priority recommendations. All outstanding recommendations are included in Appendix C for information. Recommendations that have been made and implemented in the reporting period are also included for information.

9 Internal Audit Performance Indicators

- 9.1 Performance information for Internal Audit in relation to its team plan actions and performance indicators is documented in Appendix D.

10 Internal Audit Charter

- 10.1 The Audit Manager has carried out the annual review of the Internal Audit Charter. The only changes necessary were to update job titles and the organisation structure chart therefore the Charter is not being presented again to this Committee (last presented 21st September 2016). The Charter is available on the intranet.

2017/18 AUDIT PLAN PROGRESS TO 31st AUGUST 2017

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
Housing											
Choice Based Letting	Risk Based	5	-	Removed from plan							New system will not be implemented until much later in the year therefore include on 18/19 audit plan.
Gas/Solid Fuel Servicing and Maintenance	Risk Based	10		Scheduled for Q3							
Housing Management Support Service	Risk Based	4		Scheduled for Q2							
Housing Repairs	Risk Based	10		Scheduled for Q4							
New Council Houses	Risk Based	5		Scheduled for Q3							
Rent Accounting	Risk Based	6		Scheduled for Q3							
Right to Buy	Risk Based	5	8	Final Report Issued	Grade 2	-	1	3	3	-	
Housing ICT Review	Advisory	5		As required							
Housing Repairs	Advisory	10	1	As required							
Community Services											
Grounds Maintenance	Risk Based	6		Scheduled for Q3/Q4							
Hood Park Leisure Centre	Risk Based	6	0.5	In progress							
Hermitage Leisure Centre	Risk Based	6	0.5	In progress							
Planning Enforcement	Risk Based	6		Scheduled for Q3/Q4							
New Car Parking Machines	Advisory	2									
Disabled Facilities Grant Determination	Grant	3	-	Removed from plan							This work is no longer required as funding comes through LCC who sign off the determination.
Planning											
Development Control	Risk Based	6	6	Report drafting							
Economic Development											
Cultural Services	Risk Based	4	-	Removed from Plan							The Service is

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
											currently going through an internal review therefore will consider the need for this audit in 2018/19.
Coalville Project	Advisory	2									
Business Focus Database	Advisory	1	0.5	Completed	N/A – advisory						
Finance											
ICT Assets	Risk Based	5	11	Report drafting							
Key Financial Systems	Risk Based	30	11	HR and Payroll Audit in progress							
Finance Service/Systems Review	Advisory	4	2.5	As required							

KEY

Audit Opinion

Grade	Definition
1	Internal controls are adequate in all important aspects
2	Internal controls require improvement in some areas
3	Internal controls require significant improvement
4	Internal controls are inadequate in all important aspects

Recommendation Priority

Level	Definition
Critical	Recommendations which are of a very serious nature and could have a critical impact on the Council, for example to address a breach in law or regulation that could result in material fines/consequences.
High	Recommendations which are fundamental to the system and require urgent attention to avoid exposure to significant risks.

Medium	Recommendations which, although not fundamental to the system, provide scope for improvements to be made,
Low	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
Advisory	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B

EXECUTIVE SUMMARY OF IN HOUSE INTERNAL AUDIT FINAL REPORTS ISSUED 01 JUNE 2017 – 31 AUGUST 2017

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Main Areas for Improvement	Recommendations				
					C	H	M	L	A
2016/17 Audits									
14 – S106	Regeneration and Planning Portfolio Holder	Head of Planning and Regeneration Planning Policy Team Manager	Grade 3	Provision of dedicated resource. Procedure notes required for all aspects of the process. Recording and monitoring of S106 agreements and conditions. Calculation and monitoring of payment of invoices raised. Accuracy and reconciliation of information held across the Council.	-	5	8	2	2
15 – Sundry Debtors	Corporate Portfolio Holder	Head of Transformation Financial Services Team Manager	Grade 1	None.	-	-	-	1	-
2017/18 Audits									
1 – Right to Buy	Housing Portfolio Holder	Head of Housing Housing Management Team Manager	Grade 2	The introduction of a Tenancy Fraud Policy outlining the Council’s approach to dealing with fraud in this area. Standard letters and the information issued to applicants.	-	1	3	3	-

See Appendix A for Key.

RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

Report		Recommendation		Rating	Officer Responsible	Target Date	Senior Auditor Comments
2016/17 Reports							
11	Review of Compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption	3	Consideration should be given as to whether the Council requires a strategy or action plan to supplement the Anti-Fraud and Corruption Policy.	Medium	Interim Head of Transformation	28.04.17	It has been decided to produce an action plan but this has not yet been produced.
		7	A review should be undertaken to confirm that the policy framework is satisfactory and policies are up to date. As part of this the need for a cyber security policy should be considered.	Medium	Interim Head of Transformation	26.05.17	A review has taken place with plans for a cyber security policy but this has not yet been produced. Internal Audit will follow up again in November.
		8	As part of the decision as to whether or not an anti-fraud and corruption strategy is appropriate for the Council, the requirement to produce an annual report on the effectiveness of arrangements in connection with the management of fraud should be considered.	High	Interim Head of Transformation	26.05.17	It has been decided that an annual report will be produced for year ended 2017/18.
NA	Key ICT Controls Audit	3	ICT Management should document the new DR arrangements once they have been established e.g. into a formal DR Policy/Plan. Once the new DR arrangements have been established regular DR tests should be planned and undertaken.	Medium	IT Manager	September 2017	Audit follow up will take place in October 2017

Report		Recommendation		Rating	Officer Responsible	Target Date	Senior Auditor Comments
		4	Consideration should be given to ensuring third parties who connect to the NWLDC network have signed up/ agreed to some form of Third Party Code of Connection.	Medium	IT Manager	August 2017	Draft agreement is being drawn up with the Legal team.
		6	Consideration should be given to implementing a capacity monitoring solution to prevent any system downtime as a result of capacity issues to enable any areas of concern to be addressed in a proactive manner.	Medium	IT Manager	September 2017	Audit follow up will take place in October 2017
		9	Consideration should be given to reviewing the password configurations for key IT applications to ensure that they are reasonable. Where a decision is made to allow for more relaxed password requirements any associated risks should be formally approved by Senior Management.	Medium	IT Manager, in conjunction with the Systems Administrators	July 2017	This work was not completed as at September follow up as it requires the input of systems administrators from across the Council– this will be followed up again in October.
14	S106	1	Responsibility for the recording and monitoring of S106 agreements should be formally assigned to an individual / team. In order to have a system that is fit for purpose consideration should be given to providing a dedicated resource that can focus on designing and implementing a system that can effectively manage this process.	High	Planning Policy Team Manager	July 2017	Implemented – temporary resources in place
		2	<p>The current guidance notes require further improvement to clearly show what should happen at each stage of the process and the individual / team responsible. There are a number of areas which would also benefit from having written procedures, as a minimum these should cover:</p> <ul style="list-style-type: none"> • Registering / recording of S106 agreements. • Monitoring of triggers and action 	Medium	Planning Policy Team Manager	August 2017	Partially implemented – some procedure notes have been produced however there are still some that need to be drafted. The service aim to do this by October 2017. Internal Audit will follow up in November 2017.

Report		Recommendation		Rating	Officer Responsible	Target Date	Senior Auditor Comments
			points. <ul style="list-style-type: none"> • Raising invoices and monitoring of payment. • Grant applications and approval process. • Action to be taken when obligations not met. 				
		3	The date that the S106 agreement is input to the S106 database should be recorded. Consideration should be given as to how soon the S106 database should be updated following receipt of the S106 agreement and built into the procedure notes.	Low	Planning Policy Team Manager	August 2017	No formal follow up as low priority.
		4	For ease of future reference the Strong Room Register reference allocated to the S106 agreement should also be recorded on the S106 database.	Low	Planning Policy Team Manager	July 2017	No formal follow up as low priority.
		5	The details from the S106 agreement entered onto the S106 database should be sufficient to enable effective monitoring of actions and triggers associated with the agreements.	High	Planning Policy Team Manager	September 2017	This will not be implemented by the target date as it is reliant on the chosen database/system to enable the effective monitoring to take place. Internal Audit will follow up in November 2017.
		6	Where checks are undertaken of the input of the S106 agreement these should ensure that all the required information has been input. Consideration should also be given as to whether the checking of input to the S106 database is actually necessary.	Medium	Planning Policy Team Manager	August 2017	Implemented – the checks are not considered necessary
		7	It may be worth considering whether the S106 database in its current format provides the most efficient way of recording and monitoring the system. As the expectation is ultimately to upload this	Advisory	Risk Accepted although Planning Policy Officer is reviewing all spreadsheets	Not applicable	It has now been decided that a new system/database will be required and work is being undertaken such as visits with other local authorities, to

Report		Recommendation		Rating	Officer Responsible	Target Date	Senior Auditor Comments
			document or a document reliant on the accuracy of this information to the NWLDC website it should be in a format that is clear and easily understood.				decide on the most appropriate solution.
		8	Planning Policy should give consideration as to how satisfied they are that the S106 database contains all of the agreements that it needs to and whether future reconciliations between the Strong Room Register and S106 database would be useful.	Advisory	Planning Policy Team Manager	Not applicable	-
		9	Where other departments retain records of S106 agreements for their own purposes regular liaison meetings should be held with the department and Planning Policy to ensure that information held by all parties agrees.	Medium	Planning Policy Team Manager	October 2017	Audit will follow up in November 2017.
		10	Processes should be in place to effectively monitor S106 actions and trigger points so that the Council is proactive in invoicing developers rather than reactive. The offer from the Legal Services Team Manager to prepare a 'briefing note' to the Head of the Leicestershire Revenues and Benefits Partnership in relation providing information on the occupation dates of new properties should be acted on as soon as possible.	High	Legal Services Team Manager	September 2017	Audit will follow up in November 2017.
		11	The invoice in respect of the Off Site Affordable Housing monies due for Planning Ref: 12/00646/FULM should be raised as soon as possible.	High	Planning Policy Team Manager	June 2017	Implemented
		12	The cost of subscribing to RICS to obtain RICS BCIS indexation figures should be explored and a decision made as to whether the subscription should be obtained. If the RPI is to continue to be used for all future calculations Legal Services should be consulted to ensure that	High	Planning Policy Team Manager	June 2017	Implemented

Report		Recommendation		Rating	Officer Responsible	Target Date	Senior Auditor Comments
			S106 agreements reflect this.				
		13	When issuing invoices for payment of S106 obligations details of how the invoice has been calculated and the indexation used in the calculation should also be provided. The initial invoice calculations should be carried out by officers in Planning Policy with the role of the Senior Accountant being to check the calculations for accuracy.	Medium	Planning Policy Team Manager	August 2017	Implemented
		14	Officers in Planning Policy should be provided with access to the Debtors system to monitor payments made. Where access is already available to the Debtors system it should be confirmed that staff understand how to use this and where not that relevant training is sought.	Medium	Planning Policy Team Manager	August 2017	Implemented
		15	Records should be maintained which show the intended recipient of S106 funding, amount due, purpose of funding and date which the funding is to be spent by. There should be a facility whereby the recipient is prompted of funding available on a periodic basis (this information should have been agreed first with the other Council departments that also hold information).	Medium	Planning Policy Team Manager	August 2017	This is being worked on but the original target date has not been met as it is reliant on the chosen database/system to be fully implemented. Internal Audit will follow up in November 2017.
		16	The Request to Release S106 Form should be reviewed to ensure it captures explicitly the reasons for approval or rejection.	Medium	Head of Planning and Regeneration	July 2017	This is being addressed as part of the procedures update and this element is outstanding. The service aim to do this by October 2017. Internal Audit will follow up in November 2017.
		17	Completed funding drawdown applications should be numbered and a record kept of their location should reference to these be required in the future.	Medium	Planning Policy Team Manager	July 2017	This is being worked on but the original target date has not been met. Internal Audit will follow up in November 2017.
15	Sundry Debtors	1	Where there are delays in the completion of Sundry Debtors reconciliations, the Senior	Low	Senior Exchequer	Implemented	-

Report		Recommendation		Rating	Officer Responsible	Target Date	Senior Auditor Comments
			Exchequer Services Officer should be made aware of these and the reason for the delay clearly documented on the reconciliation		Services Officer	immediately.	
2017/18 Reports							
1	Right to Buy	1	A Tenancy Fraud Policy should be drawn up which covers all types of Housing Tenancy Fraud (not just Right to Buy). The policy should clearly state the action to be taken should a fraud be identified.	High	Housing Management Team Manager	1st November 2017 (policy at draft stage) and final approved by 1st January 2018	Audit will follow up in December 2017.
		2	A risk assessment should be undertaken to determine the level of risk associated with Tenancy Fraud.	Medium	Housing Management Team Manager	1st November 2017	Audit will follow up in December 2017.
		3	On receipt of RTB1 applications these should be clearly date stamped to confirm when the application was received.	Medium	Senior Administration Officer, Housing Management	Already implemented	Implemented
		4	As there is an expectation that RTB applications are acknowledged within 48 hours of receipt there should be a mechanism in place to monitor whether this is being achieved.	Low	Senior Administration Officer Housing Management	1 st September 2017	No formal follow up as low priority.
		5	In procuring the new Housing system the specification should include a module to allow the effective administration and performance management of RTB applications.	Low	Housing Management Team Manager	Apr-20	No formal follow up as low priority.
		6	Consideration should be given as to the benefits of producing an 'easy read' leaflet explaining the Right to Buy process.	Low	Recommendation not accepted with the following response provided "There is a standard easy to read DCLG leaflet that we can issue which does this. No need for a separate leaflet from us which we would need to update."	Not applicable	-

Report		Recommendation		Rating	Officer Responsible	Target Date	Senior Auditor Comments
		7	Standard letters should be reviewed and amended as appropriate.	Medium	Senior Administration Officer, Housing Management	1st September 2017	Audit will follow up in October 2017.

Internal Audit Performance

Performance Measures:

Performance Measure	2017/18 Quarter 2 Target	Position as at 31.08.17	Comments
Delivery of 2017/18 Audit Plan	40%	31%	Three audits in progress therefore should meet Q2 target.
Percentage of Client Satisfaction with the Internal Audit Service	100%	100%	
Compliance with the Internal Audit Standards	Full	No significant gaps in compliance	
Compliance testing of completed recommendations	90%	100%	

Service Plan Actions:

Key Deliverables (Action)	Quarter 2 Milestone	Position as at 31.08.17
Review and update Health and Safety risk assessments to ensure risks to staff and customers are controlled.	Set action plan to implement improvements where necessary	Review completed 30.05.17 with no actions required.
Conduct self-assessment audit of all office areas and support activities of the Business Improvement Team.	Conduct Q2 self-assessment audit and report findings to Business Improvement Team	Q2 self-assessment not yet requested.
Complete audits as per risk based audit plan	Complete 40% of audit plan	31% completed with three audits in progress therefore should meet Q2 target.
Quarterly progress reports to Audit and Governance Committee	Progress report to Sep A&GC	On track for 27 th September Audit and Governance Committee.
Achievement of PSIAS action plan and associated Quality Assurance and Improvement Programme	Completion of any actions following review	No actions required.
Annual Audit Opinion delivered by 30 th June 2017 deadline.	N/A	Achieved in Q1.
Risk based annual audit plan for 2018/19 approved by 31 March 2018.	N/A	Not applicable.