

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 25 JULY 2018**

Title of report	<b>INTERNAL AUDIT ANNUAL REPORT 2017/18</b>
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Purpose of report	<p>To present the annual internal audit opinion on the overall adequacy and efficiency of the Council's framework of governance, risk management and control.</p> <p>This is required by the Public Sector Internal Audit Standards and should be used to inform the Annual Governance Statement.</p>
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Strategic aims	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	A negative internal audit opinion would cast doubt on the Council's governance arrangements and could impact on the audit of the Statement of Accounts.
Equalities Impact Screening	N/A
Human Rights	N/A
Transformational Government	No direct implications.
Consultees	Head of Finance (Section 151)
Background papers	Internal Audit Progress Reports during 2017/18 Public Sector Internal Audit Standards
Recommendations	<b>THAT THE AUDIT AND GOVERNANCE COMMITTEE NOTES THIS REPORT.</b>

## 1. INTRODUCTION

- 1.1 This is the annual report of the Chief Audit Executive (Interim Audit Manager) as required by the Public Sector Internal Audit Standards (PSIAS). It covers the period 1 April 2017 to 31 March 2018.
- 1.2 This report includes the Interim Audit Manager's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 1.3 This report also includes:
- A summary of internal audit work carried out during 2017/18 which supports the opinion.
  - Issues relevant to the preparation of the Annual Governance Statement.
  - Internal Audit's Quality Assurance and Improvement Programme (QAIP).
  - A statement on conformance with the Public Sector Internal Audit Standards.

## 2. CHIEF AUDIT EXECUTIVE (INTERIM AUDIT MANAGER) OPINION 2017/18

- 2.1 I am satisfied that sufficient internal audit work has been undertaken to allow me to give an opinion on the adequacy and effectiveness of the framework of governance, risk management and control. In giving this opinion it should be noted that assurance cannot be absolute and the most that Internal Audit can provide is reasonable assurance that there are no major weaknesses in the system of internal control.
- 2.2 For the 12 months ended 31 March 2018, I have formed the opinion that the Council's overall internal control arrangements are a **Grade 2**. In line with our Internal Audit opinion grade definitions, this means that I consider that the internal control arrangements require improvement in some areas.
- 2.3 My opinion is based on the following:
- All internal audit work undertaken during the year.
  - Assurance provided by the auditors of the Leicestershire Revenues and Benefits Partnership.
  - Follow up audit work in respect of audit recommendations.
  - My knowledge of the Council's governance and risk management structure and processes.

## 3. SUMMARY OF INTERNAL AUDIT WORK DURING 2017/18

- 3.1 The risk based internal audit plan for 2017/18 was presented and approved by the Audit and Governance Committee on 22nd March 2017. The plan was developed to provide assurance on the adequacy and effectiveness of internal controls across a range of financial and organisational areas that were identified as part of the risk based planning process. Progress against the plan has been reported to Audit and Governance Committee throughout the year as part of the quarterly Internal Audit progress reports.
- 3.2 A summary of the audit opinions given in 2017/18 by the in-house team is detailed in Table 1 below. The opinion for individual audits is included in Appendix A for information.

Table 1

<b>Audit Opinion</b>	<b>Number</b>
Grade 1 – Internal controls are adequate in all important aspects	3
Grade 2 – Internal controls require improvement in some areas	7
Grade 3 – Internal controls require significant improvement	1
Grade 4 – Internal controls are inadequate in all important aspects	0
<b>Total</b>	11

- 3.3 Three of the Council's key financial systems (Benefits, Business Rates and Council Tax) are provided by the Leicestershire Revenues and Benefits Partnership. For 2017/18 the internal audit service at the Partnership was provided by PwC. They issued a 'low' risk report setting out their findings at the Leicestershire Partnership Revenues and Benefits Joint Committee held on 28<sup>th</sup> June 2018. I have reviewed their report which included five low risk findings in relation to Council Tax and NNDR:

- Discounts and exemptions are not always reviewed within an appropriate time frame and supporting evidence of review not always retained.
- Reconciliations between the Council Tax system and cash collection records not performed on a timely basis;
- Reconciliations between the Valuation Office schedule and the Council Tax records not performed /reviewed on a timely basis.

Appropriate recommendations have been made to address the weaknesses which have been accepted by management.

- 3.4 Internal Audit follow up progress against recommendations in line with the timescales agreed at the time of issuing reports. The Audit and Governance Committee is updated on the Council's progress against the recommendations as part of the quarterly Internal Audit progress reports, as well as giving details of ongoing or overdue recommendations. A summary of the recommendation tracking results for 2017/18 is included at Appendix B.

#### **4. ISSUES RELEVANT TO THE PREPARATION OF THE ANNUAL GOVERNANCE STATEMENT**

- 4.1 The in-house Internal Audit team have issued one grade 3 audit report during 2017/18 in relation to the review of Sundry Debtors.

The main areas identified for improvement are:

- Lack of formal operational procedure notes
- Weaknesses with regards to evidencing/recording of action taken on debt recovery
- Weaknesses with regards to Issue and follow-up of aged debtor reports
- Lack of focussed debt recovery via a formal action plan
- Inaccuracies with regards to Sundry debt write-offs reported to Cabinet
- Monitoring and reporting of income collection relating to prior year debts

There were no Grade 4 audit reports issued during 2017/18.

We reported four high priority recommendations in respect of the review of Capital Accounting. The audit report was issued as an overall Grade 2 however I have included the high priority areas identified for improvement below for consideration in the Annual Governance Statement.

- Updating and maintaining the Asset Disposal Policy and inclusion of Plant & Equipment;
- Depreciation Calculations.

In addition a number of high priority recommendations were made in respect of other audit reviews undertaken , however as they relate to more specific systems and service areas , I do not consider it necessary to include them in the Annual Governance Statement. The Section 151 Officer and/or Deputy receive all Internal Audit reports issued therefore they are also able to make their own assessment when completing the Annual Governance Statement should they be of a different opinion.

## **5. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP) FOR INTERNAL AUDIT**

- 5.1 The Public Sector Internal Audit Standards require the QAIP to include internal and external assessments.
- 5.2 The internal assessments applicable to 2017/18 comprise of the following:
- The Audit Manager/ Interim Audit Manager planned all audit engagements and carried out documented reviews of working papers and draft reports prior to issue.
  - Monthly performance review meetings, attended by the Audit Manager and the Head of Transformation/Director of Resources and more recently attended by the Interim Audit Manager and the Head of Legal and Support Services.

- Quarterly customer satisfaction surveys were sent out to all Heads of Service and Team Managers who had an audit in their service area. The results of which are included in the quarterly progress reports to Audit and Governance Committee.
- Quarterly progress reports to Audit and Governance Committee which include monitoring of activity and performance.
- April 2017 review of revised Public Sector Internal Audit Standards to ensure ongoing conformance.

5.3 The PSIAS require external assessments to be conducted at least once every five years. Our external assessment was completed in April 2015 and the full report was presented to the Audit and Governance Committee meeting on 24<sup>th</sup> June 2015.

## 6. **CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

6.1 The external assessment conducted in April 2015 concluded that there were no significant gaps in compliance. The Standards were updated in April 2017 and the Audit Manager carried out a review against the additions to the Standards at that time to ensure that we remained compliant from April 2017. There have been no further updates to the standards during 2017/18.

6.2 With the exception of a minor delay in obtaining a suitably qualified auditor to cover maternity leave for the Audit Manager's post, I can confirm that during 2017/18 we conformed to the Public Sector Internal Audit Standards and will continue to do so during 2018/19.

**Appendix A**

**RESULTS OF INDIVIDUAL AUDIT ASSIGNMENTS 2017/18**

Audit Report	Grade	Number of Recommendations					Date reported to Audit and Governance Committee
		Critical*	High	Medium	Low	Advisory	
1 – Right to Buy	2	0	1	3	3		Sept 2017
2 – ICT Assets	2	0	3	5	0		December 2017
3 – Development Control	2	0	3	2	0		December 2017
4 – Hood Park Leisure Centre	1	0	0	0	0		March 2018
5 – Hermitage Leisure Centre	2	0	2	2		2	March 2018
6 – HR & Payroll	2	0	5	12	1		December 2017
7 – Rent Accounting	1	0	0	0	0		March 2018
8 – Assistive Technology & Support Services	2	0	7	7	1		To be reported July 2018
9 – Cash & Bank	1	0	0	0	0		To be reported July 2018
10 – Capital Accounting	2						To be reported July 2018
11 – Sundry Debtors	3	0	9	5	1		To be reported July 2018
12 – Grants	N/A						This audit was in progress at the time of writing the report.

## Appendix B

### SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS 2017/18

Recommendation Priority	Recommendations Made	Recommendations Not Agreed	Recommendations Implemented	Recommendations Outstanding (Not Yet Due or Original Target Date Extended) *	Recommendations Overdue/Not Implemented
Critical	-	-	-	-	-
High	30	-	12	18	-
Medium*	36	-	19	17	-
Low	6	1	4	1	-
Total	72	1	35	36	-

*"Recommendations Outstanding" figures include recommendations made in respect of the recently issued Capital Accounting and Sundry Debtors audits.*

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.