

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 22 SEPTEMBER 2010

Title of report	REVISED INTERNAL AUDIT PLAN AND PERIOD 5 PROGRESS REPORT
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Purpose of report	To inform the committee of the revised internal audit work plan for 2010/11 and the performance of the Internal Audit Section to 29 August 2010.
Reason for Decision	To comply with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
Strategic aims	Organisational Development
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	The Internal Audit planning process is based on a risk assessment methodology
Equalities Impact Assessment	Not Applicable
Human Rights	None
Transformational Government	Not Applicable
Consultees	Corporate Leadership Team

Background papers	CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
Recommendations	<p>THAT THE COMMITTEE:</p> <p>1) NOTES AND APPROVES THE ATTACHED REPORT</p> <p>2) APPROVES THE INTERNAL AUDIT TERMS OF REFERENCE</p>

1.0 INTRODUCTION

1.1 This report is to notify members of the revised Internal Audit Plan for 2010/11 and the work and performance of Internal Audit to 29 August 2010.

2.0 BACKGROUND

2.1 The guidance given in the 'Code of Practice for Internal Audit in Local Government in the United Kingdom (published by CIPFA) is seen to be proper and best practice in relation to Internal Audit and defines the way in which Internal Audit should undertake its functions. The Code of Practice requires a risk-based plan that is informed by the organisation's risk management, performance management and other assurances processes. It also requires that Internal Audit shall submit progress reports to the organisations Audit Committee.

2.2 The revised Internal Audit Plan for 2010/11 and progress report highlighting the work and performance of Internal Audit to 29 August 2010 is attached as Appendix 1.

2.3 As part of the CIPFA Code of Practice, Internal Audit is required to have Terms of Reference which have been approved by the Audit Committee. The Internal Audit Terms of Reference have been updated and now require approval.



Internal Audit Plan & Progress Report

1. INTRODUCTION

- 1.1 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 requires the authority's Audit Committee to approve the audit plan and monitor progress and to receive periodic reports on the work of internal audit. The Corporate Governance Scrutiny Committee approved the Audit Plan on the 28 April 2010.
- 1.2 The purpose of this report is to provide members with a revised plan and an update on the progress against the audit plan as at 29 August 2010. The report will also highlight the services performance in relation to the Local Performance Indicators and Internal Audit recommendations. These progress reports will enable the committee to be updated on current issues and any significant issues can be brought to the attention of the committee.

2. TERMS OF REFERENCE

- 2.1 Section 3 of Part 3 of the Constitution sets out the Terms of Reference of the Audit and Governance Committee, as set out at the extract below:
'To act as the Authority's Audit Committee, to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process'.

3. REVISED INTERNAL AUDIT PLAN

- 3.1 The Audit Services Manager & Internal Auditor have both resigned from their posts. A review is currently being carried out on the options for the future delivery of the internal audit service and the use of an agency internal auditor is currently being used to fill the shortfall in capacity in the short term. Therefore a revised Internal Audit Plan has been produced for 2010/11 and is documented in Appendix A.

4. PERFORMANCE AND PROGRESS AGAINST THE PLAN

- 4.1 Appendix B details a status report against the revised audit plan up to the 29 August 2010 and is summarised in Table A on the next page. Despite the fact that both the Audit Services Manager and the Internal Auditor have resigned, all of the main systems scheduled for quarters 1-2 are in progress and all of the non main systems audits scheduled have been completed. The one main system, Capital Accounting, scheduled for quarter 1 is still in progress. Due to the Service Review the Senior Auditor has not had the capacity to complete the testing commenced by the Internal Auditor.

Table A: Progress against the Plan: 1 April - 29 August 2010

	Main	Non-Main
Planned Audits	12	7
Report Issued/Complete	1	5
In Progress	5	-
No Progress – Due Quarter 3 & 4	6	2

5. INTERNAL AUDIT RECOMMENDATIONS

- 5.1 A Reports and Recommendations Procedure was introduced from April 2009 to formalise the process of issuing Internal Audit reports, agreeing recommendations and implementation timescales and following-up of agreed recommendations to ensure recommendations have been implemented by the agreed date and testing to ensure the recommendation has been implemented satisfactorily. This procedure was introduced to raise the importance of the recommendations made. It is important that agreed Internal Audit recommendations are implemented as this helps to secure and strengthen the internal control environment. The Council may be exposed to a variety of risks if Internal Audit recommendations are not implemented within the timescales agreed by management.
- 5.2 Internal Audit recommendations are categorised as Fundamental, Significant or Merits Attention. The definitions for each and the timescale for implementation are detailed in the table below.

Table B: Recommendation Categories

FUNDAMENTAL	Action is imperative to ensure that the objectives for the area under review are met.	To be implemented within 6 months.
SIGNIFICANT	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.	To be implemented within 9 months.
MERITS ATTENTION	Action advised to enhance control or improve operational efficiency.	To be implemented within 12 months.

- 5.3 Table C summarises the recommendations made up to the 29 August 2010 and details of implementation and follow up testing. There are no recommendations that require bringing to the attention of the Corporate Leadership Team or this committee for non-agreement or non-implementation. The one overdue recommendation is awaiting a decision from the coalition government on the future of the Independent Safeguard Authority.

Table C: Summary of Recommendations as at 29 August 2010

Recommendations Made:	
Fundamental	1
Significant	4
Merits Attention	3
	8
Recommendations Agreed:	3
Recommendations Disagreed	0
Recommendations Awaiting Confirmation from Service Manager:	5
	8
Follow Up:	
2009/10 Outstanding Agreed Recommendations brought forward	19
2010/11 Agreed Recommendations	3
	22
Agreed Recommendations Implemented:	11
Agreed Recommendations: Overdue	1
Agreed Recommendations: Due for Implementation – Qtr 2	2
Agreed Recommendations: Due for Implementation – Qtr 3	2
Agreed Recommendations: Due for Implementation – Qtr 4	2
Agreed Recommendations: Due for Implementation – 2011/12	4
	22
Compliance Testing:	
2009/10 Implemented Recommendations Testing b/fwd	10
2010/11 Implemented Recommendations	11
	21
Compliance Testing Completed	1
Compliance Testing Outstanding	20
	21

6. LOCAL PERFORMANCE INDICATORS

- 6.1 Internal Audit has five key performance indicators. The indicators are monitored on a monthly basis and performance is reported to the Head of Legal and Democratic Services. Table D shows the performance against the Local Performance Indicators for quarter 1 and quarter 2 as at 29 August 2010. The audit of the main fundamental systems (A/LD/01) has not been achieved for quarter 1 (please refer to para 4.1).
- 6.2 The performance indicators in relation to the Audit of National and Local Indicators (A/LD/04) and the follow up of agreed recommendations (A/LD/05) have not been achieved as there has been insufficient capacity to carry out the required work since the resignations of the Audit Services Manager and the Internal Auditor.

Table D: Local Performance Indicators

	Qtr 1 As at 04.07.10		Qtr 2 As at 29.08.10		Qtr 3		Qtr 4	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
A/LD/01 Audit of Main fundamental systems to satisfaction of External Audit	8%	0%	50%	17%	83%	-	100%	-
A/LD/02 Audit of Non Main Fundamental Systems to satisfaction of External Audit	71%	71%	71%	71%	86%	-	100%	-
A/LD/03 Audit of National Indicators to satisfaction of External Audit	100%	100%	-	-	-	-	-	-
A/LD/04 Audit of National and Local Indicators to satisfaction of External Audit	-	-	5	0	5	-	5	-
A/LD/05 Follow up of agreed recommendations within one month of notification of completion.	80%	0%	80%	0%	80%	-	80%	-

7. UPDATE ON THE REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

- 7.1 On the 26 May 2010, this committee approved a revised action plan produced to ensure full compliance with the CIPFA Code of Practice. One of the actions was to review and update if necessary the Internal Audit Terms of Reference in accordance with the requirements of the code. The Terms of Reference have been updated and are attached at Appendix C for the committee to review and approve.

Appendix A

INTERNAL AUDIT – 2010/11 REVISED AUDIT PLAN/WORK PROGRAMME

CODE	AUDIT	ASM	SA	IA	AGENCY	TOTAL
	Working Days	27.0	261.0	85.0	100.0	473.0
	Non Available Days					
NA01	Annual Leave	0.0	31.0	6.0	0.0	37.0
NA02	Bank Holidays	0.0	8.0	4.0	0.0	12.0
NA03	Extra Statutory Day	0.0	1.0	0.0	0.0	1.0
NA04	Special Leave – Elections	0.0	1.4	1.3	0.0	2.7
NA05	Sickness	27.0	5.0	34.0	0.0	66.0
NA06	Medical Appointments	0.0	1.0	0.2	0.0	1.2
NA07	Training	0.0	6.0	0.3	0.0	6.3
NA08	AAT	0.0	0.0	8.5	0.0	8.5
	Sub-Total	27.0	53.4	54.3	0.0	134.7
	Available Days	0.0	207.6	30.7	100.0	338.3

CODE	AUDIT	DAYS	MAIN	NON-MAIN	OTHER	QTR	AUDITOR
A101	Capital Accounting	5	✓			1	SA/IA
A102	Cash and Bank	10	✓			3	Agency
A103	Council Tax	10	✓			4	Agency
A104	Creditors	10	✓			2	Agency
A105	Housing Benefits	10	✓			2	Agency
A106	Housing Maintenance	15	✓			2	SA/IA
A107	Housing Rents	12	✓			3	Agency
A108	Main Accounting	12	✓			3	Agency
A109	Non Domestic Rates	8	✓			3	Agency
A110	Payroll	8	✓			2	Agency
A111	Sundry Debtor	8	✓			2	Agency
A112	Treasury Management	8	✓			4	Agency
B101	National Fraud Initiative	10			✓	2-4	SA
B102	Follow up of Recommendations	15			✓	1-4	SA
B103	Opening Debits – Ctax/NDR/HB	6		✓		4	SA
B104	Payroll Spot Checks	1			✓	1	IA
B105	Treasury Management Recs	0.5			✓	1	SA
B107a	Inventory Spot Checks	1.3			✓	1	IA
B107b	Inventory Year End Certificates	0.2			✓	1	IA
B108b	Petty Cash Year End Certificates	0.2			✓	1	IA
B109	IT Back Up Controls	2		✓		3	SA
D101	Hermitage Leisure Centre	4.9		✓		1	IA
D102	Hood Park Leisure Centre	4.9		✓		1	IA
D103	Waste Management	5.5		✓		1	SA & IA
F101	Contracts	10			✓	1-4	SA

F102	Frauds & Special Investigations	2			✓	1-4	SA
F103	Consultancy	5			✓	1-4	SA
G101	Audit of Annual Governance Statement	1.8		✓		1	SA
G102	Annual Review of System of Internal Audit	3			✓	1-4	SA
G103	Corporate Governance Framework	10			✓	1-4	SA
G105	Performance Indicators – Year End	3		✓		1	IA
G106	Quarterly Data Quality Checks	6			✓	2-4	SA
H101	RIPA	15			✓	1-4	SA
H103	Anti-Fraud & Corruption	1			✓	2	SA
H104	Whistleblowing Policy	1.0			✓	2	SA
Z101	Audit Planning	7			✓	1&4	SA
Z102	External Audit Liaison	2			✓	1-4	SA
Z103	A&GC – Annual & Progress Reports	15			✓	1-4	SA
NC01	Admin	20.0			✓	1-4	SA & IA
NC02	General Audit Management	10.0			✓	1-4	SA & IA
NC03	Audit Manual Review & Update	3.0			✓	2	SA
NC04	Audit Team Meetings	2.0			✓	1-4	SA & IA
NC05	Benchmarking	2.0			✓	1-4	SA & IA
NC06	Budget Setting/Monitoring	0.5			✓	1-4	SA & IA
NC07	Departmental Meetings	3.0			✓	1-4	SA & IA
NC08	General Staff Meetings	2.0			✓	1-4	SA & IA
NC09	LIAG	1.0			✓	1-4	SA
NC10	Performance Management	6.0			✓	1-4	SA
NC11	Risk Management Group	0.3			✓	1	SA
NC12	SMART Plan	5.0			✓	3-4	SA
NC13	Staff Appraisals/PADS	1.2			✓	1&3	SA
NC14	Business Improvement Team	2.0			✓	1-4	SA
NC15	Internal Audit Service Review	30.0			✓	1-4	SA
NC16	Customer Satisfaction Surveys	1.0			✓	1-4	SA
	TOTAL	338.3					

ASM Audit Services Manager
 SA Senior Auditor
 IA Internal Auditor
 Agency Interim Internal Auditor

Appendix B

Internal Audit Plan – Status Report as at 29 August 2010

Audit	Qtr	Current Position	Level of Assurance
Main Systems			
Capital Accounting	1	In Progress	-
Cash and Bank	3	No Progress	-
Council Tax	4	No Progress	-
Creditors	2	In Progress	-
Housing Benefits	2	In Progress	-
Housing Maintenance	2	In Progress	-
Housing Rents	3	No Progress	-
Main Accounting	3	No Progress	-
Non Domestic Rates	3	No Progress	-
Payroll	2	In Progress	-
Sundry Debtors	2	Draft Report Issued	Adequate
Treasury Management	4	No Progress	-
Non Main Systems			
Opening Debits Ctax, NDR & HB	4	No Progress	-
IT Back Up Controls	3	No Progress	-
Hermitage Leisure Centre	1	Final Report Issued	Substantial
Hood Park Leisure Centre	1	Final Report Issued	Substantial
Waste Management	1	Final Report Issued	Substantial
Audit of Annual Governance Statement	1	Complete	n/a
Performance Indicators – Year End	1	Complete	n/a

	LEVEL	SYSTEM ADEQUACY	CONTROL APPLICATION
Positive Opinion	Substantial Assurance	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
Positive Opinion	Adequate Assurance	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
Negative Opinion	Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

INTERNAL AUDIT TERMS OF REFERENCE

Author	Anna Wright – Senior Auditor
Version No	1.2
Date	August 2010

1. INTRODUCTION

- 1.1 In accordance with best practice, the purpose, authority and responsibility of Internal Audit should be formally defined in terms of reference which:
- (a) are consistent with the Code of Practice for Internal Audit in Local Government (CIPFA);
 - (b) establish the responsibilities and objectives of Internal Audit;
 - (c) define the organisational independence of Internal Audit, including accountability and resource requirements;
 - (d) specify the requirements for the professional skills and experience of the manager of the Internal Audit function;
 - (e) establish Internal Audit's rights of access to all records, assets, personnel and premises, and its authority to obtain such information and explanations as considered necessary to fulfil its responsibilities; and
 - (f) enable the manager of the Internal Audit function to deliver an annual audit report of the council's internal control system.
- 1.2 The code of practice requires the terms of reference for the internal audit function to be formally approved by the organisation.
- 1.3 This document sets out the terms of reference for the Internal Audit section at North West Leicestershire District Council. The document will also serve as the Audit Charter so that auditors and clients can understand what internal audit is there to do and provide.

2. STATUTORY REQUIREMENT

- 2.1 The requirement of an Internal Audit function is contained within Section 151 of the Local Government Act 1972 that requires local authorities to 'make arrangements for the proper administration of their financial affairs. More specifically the Accounts and Audit Regulations 2003 (s6) require local authorities to

'maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with proper internal audit functions'.

3. DEFINITION AND ROLE OF INTERNAL AUDIT

- 3.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the degree to which the internal control environment supports and promotes the achievement of the organisations objectives. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources

3.2 Responsibility for the management of services rests with Heads of Service and their managers and this includes ensuring that appropriate and adequate internal control arrangements in place. Internal Audit is not a substitute for this but its role is to provide managers with information, professional advice and independent assurance as to the adequacy of the internal control processes.

4. RESPONSIBILITIES AND OBJECTIVES OF INTERNAL AUDIT

4.1 As defined in the Council's Financial Procedure Rules '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 regulations;
- (c) the extent to which the Council's assets and interests are accounted for and safeguarded from losses of all kinds arising from waste, inefficient administration, poor value for money, fraud or other cause

4.2 The objectives of Internal Audit are to:

- independently review and appraise systems of control throughout the authority and its activities
- ascertain the extent of compliance with procedures, policies, regulations and legislation
- provide reassurance to management that their agreed policies are being carried out effectively
- facilitate good practice in managing risks
- recommend improvements in control, performance and productivity in achieving corporate objectives
- review the value for money processes, Best Value arrangements, systems, units within the authority
- work in partnership with external auditors
- identify fraud as a consequence of its reviews and to deter crime
- Internal Audit may give consultancy and advice on new systems and changes to the internal control systems and partake in project teams but this is without prejudice to the right of Internal Audit to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date.

5. INDEPENDENCE

- 5.1 In order to provide impartial and unbiased assessments of Council operations Internal Audit must be independent of those operations.
- 5.2 Internal Audit staff must have no operational responsibilities in the areas they audit.
- 5.3 Internal Audit staff must declare any conflicts of interest regarding any audit work assigned to them.
- 5.4 The Senior Auditor will be responsible for the content of audit reports, which shall be in his/her own name.
- 5.5 Progress and annual audit reports to the Audit and Governance Committee will be prepared by the Senior Auditor who will be the named officer contact.

6. ACCOUNTABILITY, REPORTING LINES & RELATIONSHIPS

- 6.1 The Internal Audit section is located within the Legal and Democratic Services within the Corporate Directorate. The Senior Auditor reports to the Head of Legal and Democratic Services/Monitoring Officer but has the right, when necessary, to refer directly to Members, the District Auditor, the Section 151 Officer or the Chief Executive.
- 6.2 The Council has a Audit and Governance Committee which meets 5 times a year. The Senior Auditor reports directly to the committee under its terms of reference. The Audit Committee is responsible for approving the Audit Plan and Strategy. The Senior Auditor has a formal opportunity to meet in private with the Chair of the Audit and Governance Committee. If required, the Committee Members have the opportunity for direct contact with the Senior Auditor and reports that are issued bear these contact details.
- 6.3 The Internal Audit Service and the Audit Commission have regular liaison leading to joint working and therefore avoiding duplication.

7. CONTROL ENVIRONMENT AND ANNUAL AUDIT OPINION

- 7.1 The scope of Internal Audit is unrestricted and covers the entire internal control environment of the council. The internal control environment comprised the council's policies, procedures and operations in place to: -
 - a) establish and monitor the achievement of, the council's objectives
 - b) identify, assess and manage the risks to achieving the council's objectives
 - c) facilitate policy and decision making
 - d) ensure the economical, effective and efficient use of resources
 - e) ensure compliance with established policies, practices, procedures, laws and regulations
 - f) secure assets and data and to ensure an anti-fraud and corruption environment exists.

- 7.2 Where services are provided under contract or partnership arrangements, then these should allow appropriate access for Internal Audit to those matters relating to the Council's business. This includes areas where the council acts as the Accountable Body.
- 7.3 The Senior Auditor is required to provide an annual opinion to the Council, through the Audit and Governance Committee on the adequacy of the whole internal control system within the council and the extent to which the Council can rely on it. To provide the required assurance, the internal audit service will undertake a programme of work, based on an approved audit plan.

8. FRAUD & CONSULTANCY

- 8.1 Managing the risk of fraud and corruption is the responsibility of Heads of Service and their Service Managers. Internal audit does not have responsibility for the prevention or detection of fraud and corruption. However, internal auditors should be alert in all their work to risks and exposures that could allow for fraud and corruption.
- 8.2 The Council has an Anti-Fraud and Corruption Policy and Confidential Reporting (Whistleblowing) Policy which details the procedures to follow and the officers to contact should the need arise. Both policies are available on Council's website and intranet.
- 8.3 Internal Audit may be asked by clients to conduct consultancy work. Acceptance of the assignment will be dependent on available resources, the nature of the assignment and any potential impacts on assurances.
- 8.4 The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to management who retain the responsibility for the ultimate decisions taken within the area under review.

9. ASSESSMENT OF RESOURCES

- 9.1 The Senior Auditor is responsible for ensuring that Internal Audit service resources are sufficient to meet its responsibilities and achieve its objectives. If the Senior Auditor, or the Audit and Governance Committee, considers the level of audit resources or the terms of reference limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with its statutory and related requirements, they should advise the council accordingly.
- 9.2 Nonetheless, the Internal Audit service has finite resources and its workforce is therefore deployed to meet an Annual Audit Plan that pays regard to the relative risks accepted and the levels of assurance given to the Council.
- 9.3 Individual job descriptions have been agreed for each post which specifies the various roles and responsibilities of staff employed within the team. North West Leicestershire District Council also operates a 'Performance and Development Appraisal Scheme' which applies to all staff within the Internal Audit service.

10. INTERNAL AUDIT RIGHTS OF ACCESS

10.1 The scope of Internal Audit is stated within the Council's Financial Procedure Rules at C.10 which states:

'The Auditor shall have the 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 all 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 deem 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.

The Senior Auditor shall have access to, and the freedom to report in his/her name to all boards, members of officers, as he/she deems necessary.'

11. Review Timetable

11.1 These Terms of Reference will be subject to review on an annual basis, normally as part of the annual Audit Plan production process.

11.2 Suggested amendments will be agreed with the Head of Legal & Democratic Services and reported to the Audit and Governance Committee.