

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 3 FEBRUARY 2011

Title of report	INTERNAL AUDIT PROGRESS REPORT APRIL – DECEMBER 2010
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Purpose of report	To inform the committee of the progress against the internal audit plan for 2010/11 and an update on the recommendations made, agreed and implemented.
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	Interim Head of Finance and Section 151 Officer Head of Legal and Support Services and Monitoring Officer

Background papers	CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
Recommendations	THAT THE COMMITTEE NOTE THIS REPORT AND COMMENTS AS APPROPRIATE

1.0 INTRODUCTION

- 1.1 This report is to notify members of the progress against the Internal Audit plan for 2010/11 and an update on the recommendations made, agreed and implemented.

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 A progress report highlighting the work and performance of Internal Audit from April to December 2010 is attached as Appendix 1.



Internal Audit Progress Report April – December 2010

- 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 Audit and Governance Committee approved a revised Audit Plan on 22 September 2010.
- 1.2 The purpose of this report is to provide members with an update on the progress against the audit plan as at 31 December 2010. The report will also highlight the audit reports issued and recommendations made during the financial year. 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. PERFORMANCE AND PROGRESS AGAINST THE AUDIT PLAN

- 3.1 A revised Internal Audit plan was approved by this committee on 22 September 2010 to reflect the change in resources following the resignations of the Audit Services Manager and the Internal Auditor. The value for money (vfm) review of the service is still ongoing and an agency Internal Auditor is being utilised to fill the shortfall in capacity in the short term.
- 3.2 Appendix A details the progress against the revised plan for the period April to December 2010 and also includes a forecast number of days for the year to 31st March 2011. The main variances are:
 - An additional non-main system audit of Building Control will be completed;
 - An additional 10 days are required in relation to the vfm service review; and
 - Reduction in days/efficiency savings for the following areas: follow up of recommendations, contracts, corporate governance framework, data quality checks and audit committee.

3.3 A status report for the main and non main systems is documented in Appendix B. All Internal Audit reports are now available to members on the intranet, a link is documented in Appendix B. There are no reports which require bringing to the attention of this committee due to limited assurance or significant control weaknesses. The planned audits for both the main and non main systems reviews are on target to be completed by the end of March 2011, as well as the additional one non main system audit review.

4. INTERNAL AUDIT RECOMMENDATIONS

4.1 Following an audit review, Internal Audit make recommendations to improve any control weaknesses identified in the system under review. Internal Audit recommendations are categorised as Fundamental, Significant or Merits Attention. The definitions for each and the timescales for implementation are detailed in the table below.

Table A: 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.

4.2 Table B details the number of recommendations made since April 2010 by each category. The table shows that 16 recommendations have been made, out of these 15 have been agreed and Internal Audit are waiting for a response in relation to the remaining one recommendation.

Table B: 2010/11 Recommendations Made

	Agreed	Disagreed	Awaiting Response	Total
Fundamental	4	-	1	5
Significant	6	-	-	6
Merits Attention	5	-	-	5
Total	15	-	1	16

- 4.3 In April 2009, a Reports and Recommendations procedure was introduced to raise the profile of Internal Audit recommendations. It is important that agreed 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. Part of this procedure requires service managers to provide Internal Audit with updates on the status of each recommendation on a quarterly basis.
- 4.4 Table C below provides a summary of the status of agreed recommendations including outstanding recommendations brought forward from 2009/10. The table shows that 31 (70%) of agreed recommendations have been implemented. One recommendation has not been implemented by the agreed date, however the department concerned is waiting for further guidance from the government due to a change in policy. Three recommendations agreed are no longer applicable due to the recommendations being replaced by later reports by internal audit or other agencies.

Table C: Implementation of Agreed Recommendations

	2009/10 b/fwd	2010/11 Agreed	Total
Implemented	22	9	31
Not Yet Due	3	6	9
Overdue	1	-	1
No longer applicable	3	-	3
Total	29	15	44

- 4.5 Further compliance testing is completed of all implemented recommendations to ensure the recommendations have been implemented satisfactorily. Table D shows that 28 (90%) of recommendations tested have been implemented satisfactorily and testing is outstanding on two recommendations. Testing proved unsatisfactory on the remaining one recommendation. The recommendation related to the separation of duties in relation to 'Do Not Post' cheques. Follow up testing identified an improvement, however, there were still a number of incidences where a lack of separation of duties was identified. The results have been highlighted to the department concerned and further testing has been scheduled for February 2011.

Table D: Follow up Testing of Implemented Recommendations

	2009/10 b/fwd	2010/11 Agreed	Total
Testing Satisfactory	21	7	28
Testing Unsatisfactory	-	1	1
Testing Outstanding	1	1	2
Total	22	9	31

- 4.6 A database of all recommendations and their are current status is available to members on the intranet. A highlight report of all outstanding recommendations is attached as Appendix C.

Appendix A

**INTERNAL AUDIT PROGRESS AGAINST PLAN
APRIL 2010-DECEMBER 2010**

Code	Description	Audit Plan Days (Sept '10)	Actual Days Apr-Dec'10	Forecast Days Apr'10- Mar'11	Variance Plan v Forecast
	CHARGEABLE DAYS				
A101	Capital Accounting	5.0	2.6	2.6	-2.4
A102	Cash and Bank	10.0	5.4	5.4	-4.6
A103	Council Tax	10.0	9.2	9.2	-0.8
A104	Creditors	10.0	7.1	7.1	-2.9
A105	Housing Benefits	10.0	10.9	10.9	+0.9
A106	Housing Maintenance	15.0	8.5	15.0	-
A107	Housing Rents	12.0	2.6	12.0	-
A108	Main Accounting	12.0	5.1	12.0	-
A109	Non Domestic Rates	8.0	8.2	8.2	+0.2
A110	Payroll	8.0	10.1	10.1	+2.1
A111	Sundry Debtors	8.0	5.7	5.7	-2.3
A112	Treasury Management	8.0	7.4	7.5	-0.5
B101	National Fraud Initiative	10.0	4.7	10.0	-
B102	Follow up of Recs	15.0	6.5	10.0	-5.0
B103	Opening Debits	6.0	0.2	6.0	-
B104	Payroll Checks	1.0	1.0	1.0	-
B105	Treasury Management Recs	0.5	0.5	0.5	-
B107	Inventory	1.5	1.5	1.5	-
B108	Petty Cash	0.2	0.2	0.2	-
B109	IT Back Up Controls	2.0	1.0	1.0	-1.0
D101	Hermitage Leisure Centre	4.9	4.9	4.9	-
D102	Hood Park Leisure Centre	4.9	4.9	4.9	-
D103	Waste Management	5.5	5.5	5.5	-
D123	Building Control	-	6.4	10.0	+10.0
F101	Contracts	10.0	1.5	5.0	-5.0
F102	Fraud & Special Investigations	2.0	3.6	5.0	+3.0
F103	Consultancy	5.0	1.5	2.5	-2.5
G101	Annual Governance Statement	1.8	1.8	1.8	-
G102	Review of System of IA	3.0	0.5	1.0	-2.0
G103	Corporate Governance	10.0	0.7	0.7	-9.3
G105	Performance Indicators	3.0	3.0	3.0	-
G106	Data Quality	6.0	0.0	0.0	-6.0
H101	RIPA	15.0	14.2	15.0	-
H102	Constitution	-	0.4	0.5	+0.5
H103	Anti-Fraud & Corruption	1.0	1.0	1.0	-
H104	Whistleblowing Policy	1.0	0.9	1.0	-
Z101	Audit Planning	7.0	2.6	5.0	-2.0
Z102	External Audit Liaison	2.0	0.6	1.0	-1.0
Z103	Audit Committee	15.0	6.6	10.0	-5.0
		249.3	159.0	213.7	-35.6

Code	Description	Audit Plan Days (Sept '10)	Actual Days Apr-Dec'10	Forecast Days Apr'10-Mar'11	Variance Plan v Forecast
	NON AVAILABLE DAYS				
NA05	Sickness	66.0	63.0*	66.0	-
NA06	Medical Appointments	1.2	1.0	1.2	-
NA07	Training	6.3	5.8	6.3	-
NA08	AAT Training	8.5	8.5	8.5	-
		82.0	78.3	82.0	-
	NON CHARGEABLE DAYS				
NC01	Admin	20.0	18.9	22.0	+2.0
NC02	Management	10.0	5.3	10.0	-
NC03	Audit Manual Review	3.0	2.4	2.4	-0.6
NC04	Audit Team Meetings	2.0	0.3	0.3	-1.7
NC05	Benchmarking	2.0	2.0	2.0	-
NC06	Budget Setting	0.5	0.5	0.5	-
NC07	Departmental Meetings	3.0	2.0	3.0	-
NC08	General Staff Meetings	2.0	2.8	3.5	+1.5
NC09	LIAG	1.0	0.4	1.0	-
NC10	Performance Management	6.0	2.9	4.0	-2.0
NC11	Risk Management Group	0.3	0.3	0.3	-
NC12	SMART Planning	5.0	0.0	3.0	-2.0
NC13	Staff Appraisals	1.2	1.1	1.1	-0.1
NC14	BIT Meetings	2.0	0.0	0.0	-2.0
NC15	Internal Audit Service Review	30.0	32.3	40.0	+10.0
NC16	Customer Satisfaction Surveys	1.0	0.1	0.1	-0.9
		89.0	71.3	93.2	+4.2
	Contingency	0.0	0.0	1.4	+1.4
	TOTAL	420.3	308.6	390.3	-30.0
	AVAILABLE DAYS				
	Audit Services Manager	27.0	27.0	27.0	-
	Senior Auditor	219.7	160.1	219.7	-
	Internal Auditor	73.6	73.6	73.6	-
	Agency Internal Auditor	100.0	47.9	70.0	-30.0
		420.3	308.6	390.3	-30.0

* Nb Sickness Breakdown

	Days
Audit Services Manager	27
Senior Auditor	2
Internal Auditor	34
	63

Appendix B

Internal Audit Plan – Status Report as at 31 December 2010

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

Copies of all reports are available to members via the intranet at <http://sharepointapps/Members/Internal%20Audit%20Reports%20and%20Recommendations/Forms/AllItems.aspx?RootFolder=%2fMembers%2fInternal%20Audit%20Reports%20and%20Recommendations%2fInternal%20Audit%20Reports%202010%2d11&FolderCTID=&View=%7b6BB3EC26%2dA992%2d4BFE%2d8BC2%2d79465C412EBB%7d>

RECOMMENDATIONS DATABASE – HIGHLIGHT REPORT

Report No: 09/10-1

Report Name: Housing Benefit Enquiry Unit

Rec No	Recommendation	Priority	Agree/ Disagree	Implementation Date Agreed	Officer(s) Responsible	Status	Compliance Testing
2	the two Visiting Officers and the Fraud Investigators working in the BEU should be CRB checked as required by Human Resources and the review of these checks should be determined by liaison with HR. (Para 3.2.2)	Significant	Agree	March 2010	Mike Murphy (Human Resources Manager)	Overdue On Hold – awaiting new guidance from the coalition government	
9	the risk assessment for fraud referrals should be re-designed and implemented for all referrals (Para 3.4.2)	Merits Attention	Agree	March 2010 Now July 2011 due to Shared Service	Melanie Walker (PT Senior Benefits Enquiry Officer)	No Progress	

Report No: 09/10-10

Report Name: Development Control

Rec No	Recommendation	Priority	Agree/ Disagree	Implementation Date Agreed	Officer(s) Responsible	Status	Compliance Testing
5	Reconciliations between planning income records and the general ledger should be carried out monthly by an independent employee (Para 3.4.4)	Merits Attention	Agree	April 2010 Now April 2011 due to Service Review	Chris Elston (Development Control Manager)	No Progress	

Report No: 09/10-15

Report Name: Financial Management System (FMS)

Rec No	Recommendation	Priority	Agree/ Disagree	Implementation Date Agreed	Officer(s) Responsible	Status	Compliance Testing
1	The Financial Planning Manager makes appropriate amendments to the TASK system with regard to the anomalies identified in para 3.13.3.	Merits Attention	Agree	April 2010	Pritesh Padaniya (Financial Planning Manager)	Implemented July 2010	Testing Outstanding Test as part of 2010/11 Audit

Report No: 09/10-22**Report Name: Council Tax**

Rec No	Recommendation	Priority	Agree/ Disagree	Implementation Date Agreed	Officer(s) Responsible	Status	Compliance Testing
1	That a complete office procedures manual is produced as soon as possible (para 3.1.1).	Significant	Agree	December 2011	Sue Williams-Lee (Revenues and Benefits Manager)	In Progress	

Report No: 10/11-3**Report Name: Sundry Debtors**

Rec No	Recommendation	Priority	Agree/ Disagree	Implementation Date Agreed	Officer(s) Responsible	Status	Compliance Testing
1	The Fair Collection and Debt Recovery policy should be agreed and followed at the earliest opportunity (Para 3.1.2)	Fundamental	Agree	March 2011	Amanda Harper (Service Manager – Housing Management)	In Progress	
2	Recovery action is carried out to a structured time scale, with reminder letters being produced by the Senior Exchequer Services Manager with a timescale to be issued within 10 -15 days of the due date (Para 3.4.1	Significant	Agree	March 2011	Andy Gould (Senior Exchequer Services Officer)	In Progress	
4	An investigation to be undertaken with Consillium to determine if it is possible to produce an aged debtors analysis that includes adequate detail to aid the debt recovery process (Para 3.6.2)	Significant	Agree	March 2011	Andy Gould (Senior Exchequer Services Officer)	No Progress	
5	Urgent recovery action to be undertaken to reduce the amount of outstanding debt on Sundry Debtors, this should be documented on the TASK system to enable future recovery of the outstanding debt (Para 3.6.2)	Significant	Agree	March 2011	Andy Gould (Senior Exchequer Services Officer)	In Progress	

Report No: 10/11-4**Report Name: Creditors**

Rec No	Recommendation	Priority	Agree/ Disagree	Implementation Date Agreed	Officer(s) Responsible	Status	Compliance Testing
3	Regarding the Do Not Post Cheques, the same person must not both certify the invoice and also be the recipient of a cheque (para 3.3.4)	Fundamental	Agree	September 2010	Andy Gould (Senior Exchequer Services Officer)	Implemented September 2010	Testing Unsatisfactory November 2010 Repeat testing in February 2011

Report No: 10/11-6**Report Name: Housing Benefits**

Rec No	Recommendation	Priority	Agree/ Disagree	Implementation Date Agreed	Officer(s) Responsible	Status	Compliance Testing
1	A register of person interests for benefit staff claiming benefits and cases where they are landlords and agents is introduced and maintained, ensuring that the record is regularly reviewed and updated. (para 3.1.2)	Fundamental	Agree	April 2011	Emma Weaver (Benefits Supervisor)		
2	A report is produced for members detailing the level and age of overpaid housing benefit debts. (para 3.8.1)	Merits Attention	Agree	September 2011	Sue Williams-Lee (Revenues & Benefits Manager)		

Report No: 10/11-10**Report Name: Treasury Management**

Rec No	Recommendation	Priority	Agree/ Disagree	Implementation Date Agreed	Officer(s) Responsible	Status	Compliance Testing
1	The Senior Accountant is added as a designated officer on the fidelity guarantee insurance policy (3.5.1)	Fundamental			Awaiting response from Service Manager		