

Meeting	AUDIT AND GOVERNANCE COMMITTEE
Time/Day/Date	6.30 pm on Wednesday, 26 March 2014
Location	Council Chamber, Council Offices, Coalville
Officer to contact	Democratic Services (01530 454512)

The Monitoring Officer would like to remind members that when they are considering whether the following items are exempt information under the relevant paragraph under part 1 of Schedule 12A of the Local Government Act 1972 they must have regard to the public interest test. This means that members must consider, for each item, whether the public interest in maintaining the exemption from disclosure outweighs the public interest in making the item available to the public.

AGENDA

Item	Pages
1. APOLOGIES FOR ABSENCE	
2. DECLARATIONS OF INTEREST	
Under the Code of Conduct members are reminded that in declaring disclosable interests you should make clear the nature of that interest and whether it is pecuniary or non-pecuniary.	
3. MINUTES	
To confirm and sign the minutes of the meeting held on 11 December 2013.	3 - 6
4. STANDARDS AND ETHICS - QUARTER 3 REPORT	
Report of the Head of Legal and Support Services and Monitoring Officer	7 - 16
5. DRAFT MEMBER CONDUCT ANNUAL REPORT 2013/14	
Report of the Head of Legal and Support Services and Monitoring Officer	17 - 24
6. NOMINATION OF PARISH MEMBERS	
Report of the Head of Legal and Support Services and Monitoring Officer	25 - 26



7. EXTERNAL AUDIT PLAN 2013-14	
Report of the Head of Finance	27 - 52
8. PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) UPDATE REPORT	
Report of the Senior Auditor	53 - 72
9. INTERNAL AUDIT PROGRESS REPORT APRIL 2013 - FEBRUARY 2014	
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10. INTERNAL AUDIT PLAN 2014-15	
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11. TREASURY MANAGEMENT ACTIVITY REPORT - APRIL 2013 TO FEBRUARY 2014	
Report of the Head of Finance	95 - 100
12. AUDIT AND GOVERNANCE COMMITTEE WORK PLAN 2013 - 14	
To note the Committee's Work Plan	101 - 102

Circulation:

Councillor Annette Bridges
Councillor John Cotterill
Councillor Dave De Lacy
Councillor David Everitt
Councillor Geraint Jones
Councillor Caroline Large
Councillor Tom Neilson
Councillor Tony Saffell
Councillor Nigel Smith
Councillor Ray Woodward

MINUTES of a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the Council Chamber, Council Offices, Coalville on WEDNESDAY, 11 DECEMBER 2013

Present: Councillor T Neilson (Chairman)

Councillors J Cotterill, D De Lacy, D Everitt, A C Saffell and R Woodward

Officers: Mr R Bowmer, Mrs R Wallace, Ms E Warhurst and Ms A Wright

External Audit: Mr J Cornett

21. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors A Bridges, G Jones, C Large and N Smith.

22. DECLARATIONS OF INTEREST

There were no declarations of interest.

23. MINUTES

Consideration was given to the minutes of the meeting held on 25 September 2013.

It was moved by Councillor D De Lacy, seconded by Councillor J Cotterill and

RESOLVED THAT:

The minutes of the Audit and Governance Committee held on 25 September 2013 be approved as a correct record and signed by the Chairman.

24. STANDARDS AND ETHICS - QUARTER 2 REPORT

The Monitoring Officer presented the report to Members.

Councillor T Neilson commented that the Council was still receiving a high number of Freedom of Information requests. Councillor D Everitt asked if there was a limit on the time frame for historical data requests. The Monitoring Officer explained that there was no limit and if the information was available it did not matter how historical it was. The limit was related to the amount of Officer time involved in retrieving the information, if the time required was more than the threshold then a request could be refused. To date, the Council had not refused any requests.

It was moved by Councillor T Neilson, seconded by Councillor R Woodward and

RESOLVED THAT:

The report be received and noted.

25. NOMINATION OF PARISH MEMBERS

The Monitoring Officer presented the report to Members.

Members welcomed the report and felt that the views of Parish Members were important.

It was moved by Councillor T Neilson, seconded by Councillor D De Lacy and

RESOLVED THAT:

- a) The proposed contact with Parish Councils be agreed.
- b) To receive nominations from Parish Councils for consideration at the next Audit and Governance Committee meeting in March 2014.

26. ANNUAL AUDIT LETTER 2012/13

Mr J Cornett, External Auditor, presented the report to Members.

Councillor T Neilson offered his thanks for the work undertaken both by External Audit and internal Officers.

It was moved by Councillor T Neilson, seconded by Councillor R Woodward and

RESOLVED THAT:

The Annual Audit Letter 2012/13 be noted.

27. INTERNAL AUDIT PROGRESS REPORT APRIL 2013 - OCTOBER 2013

The Senior Auditor presented the report to Members.

Councillor T Neilson referred to the Service Plan Actions, in particular the target to be compliant with the Public Sector Internal Audit Standards by 31 March 2013, which was on hold, and asked if it would meet the deadline. The Senior Auditor explained that an action plan would be completed in January and an update would be brought back to the Committee in March, however it was unlikely that all the actions would be achieved by the March deadline.

It was moved by Councillor T Neilson, seconded by Councillor D Everitt and

RESOLVED THAT:

The report be noted.

28. TREASURY MANAGEMENT ACTIVITY REPORT - APRIL TO NOVEMBER 2013

The Head of Finance presented the report to Members.

Councillor D De Lacy enquired how it would affect the investments if the interest rates were to increase. The Head of Finance responded that the long term loans would not be affected as the rates were fixed, and the short term investments would benefit as the interest rates recovered.

Councillor A C Saffell asked for confirmation that the investments made with the Royal Bank of Scotland were safe due to the recent issues with the bank. The Head of Finance

confirmed that the Council had treasury advisors that gave regular updates and he assured Members that as the bank was supported by the Government it was one of the most secure, even though there had been some negative press in recent days.

In response to a question from Councillor R Woodward, the Head of Finance explained that the Council did not have any investments in the Nationwide Building Society but it was still within the report for consistency as investments had been made in the past.

It was moved by Councillor T Neilson, seconded by Councillor R Woodward and

RESOLVED THAT:

The report be approved.

The meeting commenced at 6.30 pm

The Chairman closed the meeting at 6.50 pm

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 26 MARCH 2014

Title of report	STANDARDS AND ETHICS – QUARTER 3 REPORT
Contacts	Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk Head of Legal and Support Services and Monitoring Officer 01530 454762 elizabeth.warhurst@nwleicestershire.gov.uk
Purpose of report	To receive the figures for local determination of complaints and the ethical indicators for Quarter 3 of 2013/14.
Council Priorities	Value for Money
Implications:	
Financial/Staff	N/A
Link to relevant CAT	N/A
Risk Management	By receiving this information members will be able to manage risks.
Equalities Impact Assessment	N/A
Human Rights	N/A
Transformational Government	N/A
Consultees	N/A
Background papers	None.
Recommendations	THAT THE REPORT BE RECEIVED AND NOTED.

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STANDARDS AND ETHICS

QUARTER 3 REPORT 2013-2014

1. Introduction

This is the third quarterly report to the Audit & Governance Committee detailing both the figures for the Ethical Indicators and the figures for the Local Determination of Complaints process for 2013/14.

For clarification purposes the months covered by the quarters are as follows:

Quarter 1 – 1 April to 30 June
Quarter 2 – 1 July to 30 September
Quarter 3 – 1 October to 31 December
Quarter 4 – 1 January to 31 March

The report is split into 2 parts for ease of reference; Part 1 refers to the local determination of complaints, part 2 is the table showing the ethical indicators figures.

The report will enable the Audit & Governance Committee to build up a picture over time of how many complaints are received and where these are coming from. The parts of the Code of Conduct which have been breached will also be recorded to enable training to be targeted effectively.

2. Part 1 – Local Determination of Complaints

The Monitoring Officer received 1 complaint in Quarter 3 of 2013/14. This complaint related to a Parish Council.

2.1 Source of Complaints

The complaint was received from a member of the public.

2.2 Assessment Sub-Committee Decisions

There has been 1 Assessment Sub-committee meeting in this quarter, as follows:

On 13 August 2013 the Monitoring Officer received a complaint from Councillor Adams regarding Councillor Saffell relating to comments made by Councillor Saffell about officers at the Council meeting on 12 August 2013. In summary the complaint is that Councillor Saffell's comments amounted to a public attack on the credibility of officers.

The Assessment Sub-committee meeting was held on 9 December 2013 and the decision was that other action should be taken, namely a letter from the Monitoring Officer to Councillor Saffell expressing the disappointment of the members of the Assessment Sub-committee that he had failed to co-operate with the informal resolution process. They did acknowledge that the Council meeting on 12 August was heated with differing opinions and comments being made across the Chamber and that Councillor Saffell's comments, whilst not directed to a particular officer, were inappropriate for a public meeting.

As members will be aware, the Monitoring Officer now pursues an informal dispute resolution process prior to initiating formal proceedings via the sub-committee route.

One complaint (received in Q2) has been withdrawn in this quarter and one complaint (again, received in Q2) has been resolved informally in this quarter.

2.3 Timeliness of Decision

The Standards for England Guidance stated that the Assessment Sub-committee should complete its initial assessment of an allegation “within an average of 20 working days” to reach a decision on what should happen with the complaint. The Council has taken this standard and adapted it under the new rules to aim to hold an Assessment Sub-committee within 20 working days of notifying the parties that informal resolution is not possible.

2.4 Review Requests

There have been no review requests this year. Review requests can only be made following a decision of ‘No further Action’ by the Assessment Sub-committee where there is submission of new evidence or information by the complainant.

2.5 Subsequent Referrals

None to report – see above.

2.6 Outcome of Investigations

There were no investigations concluded in this period.

2.7 Parts of the Code Breached

This section is intended to show where there are patterns forming to enable the Audit & Governance Committee to determine where there needs to be further training for Councillors. Targeting training in this way makes it more sustainable and, hopefully, more effective.

So far this year, the following areas of the code were found to have been breached:

N/A

4. Part 2 – Ethical Indicators

Ref.	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2012/13	2013/14	Actual 2012/13	2013/14	Actual 2012/13	2013/14	Actual 2012/13	2013/14
SE1	Objections to the Councils Accounts	Financial Planning Team Manager	0	0	0	0	0	0	0	
SE3	Follow up action relating to breaches of the Member/Officer Protocol (Members)	Head of Legal and Support Services	0	0	0	0	0	0	0	
SE3a	Disciplinary action relating to breaches of the Member/Officer Protocol (staff)	Human Resources Team Manager	0	0	0	0	0	0	0	
SE4	District Audit Public Interest Reports	Senior Auditor	0	0	0		0	0	0	
SE5	Number of Whistle blowing Incidents reported		1	0	0		0	0	0	
SE6	No. of recommendations made to improve governance procedures / policies		0	4	4	5	2	0	3	
SE6a	No. of recommendations implemented		7	5	6	2	1	1	1	
SE7	No. of Ombudsman complaints received	Customer Services and Corporate Complaints Officer	1	2*	2	2*	2	2*	2	
SE7a	No. of Ombudsman complaints resolved		1	1 (1 where LGO has sent further enquiries)	2	2 (1 awaiting final decision)	2	1 (1 awaiting final decision)	2 (1 responded to in Q1 13/14)	

Ref.	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2012/13	2013/14	Actual 2012/13	2013/14	Actual 2012/13	2013/14	Actual 2012/13	2013/14
SE7b	No. of Ombudsman complaints where compensation paid	Customer Services and Corporate Complaints Officer	0	1	1	0	1	0 (based on 1 resolved in Q3)	0	
SE8	No. of Corporate Complaints received		77	72	84	75	89	53	51	
SE8a	No. of Corporate Complaints resolved		75	68	84	71	89	50	47	
SE8b	No. of Corporate Complaints where compensation paid		1	3	2	2	6	2	0	

*

During Quarter 2, the Council received 2 Local Government Ombudsman (LGO) cases, details as below: -

Service Area	Nature of the case	Decision by the LGO	Amount of compensation paid
Development Control	Council failed to take into account, complainants objections against Planning issues & failed to take enforcement action regarding planning breaches and statutory noise nuisance on the development site.	LGO agreed that the Council had followed correct process and were not at fault	N/A
Housing Management	Complainant claims that the Council has not correctly handled his Right to Buy application for the purchase of a Council property.	Decision not yet received from the LGO	

Ref.	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2012/13	2013/14	Actual 2012/13	2013/14	Actual 2012/13	2013/14	Actual 2012/13	2013/14
Freedom of Information Act Indicators										
SE9	Total no. of requests received	Head of Legal and Support Services	115	116	84	109	83	165	148	
SE9a	No. of requests compliant		94	100	59	92	72	125	128	
SE9b	No. of Non compliant requests		21	14	14	15	11	31	16	
SE9c	No of requests still open and within the 20 working days		0	0	8	0	0	0	2	
SE9d	Number withheld due to exemptions/fees applied		12	5	3	4	9	5	16	

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 26 MARCH 2014

Title of report	DRAFT MEMBER CONDUCT ANNUAL REPORT 2013/14
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Chief Executive 01530 454500 christine.fisher@nwleicestershire.gov.uk</p> <p>Head of Legal & Support Services and Monitoring Officer 01530 454762 elizabeth.warhurst@nwleicestershire.gov.uk</p>
Purpose of report	To receive and note the draft Annual Report and authorise the Head of Legal & Support Services and Monitoring Officer to make any minor amendments before being recommended to Council.
Council Priorities	Value for Money
Implications:	
Financial/Staff	N/A
Link to relevant CAT	N/A
Risk Management	By receiving this information members will be able to manage risks of misconduct.
Equalities Impact Assessment	N/A
Human Rights	N/A
Transformational Government	N/A
Consultees	N/A
Background papers	<p>Localism Act 2011 http://www.legislation.gov.uk/ukpga/2011/20/contents/enacted</p> <p>Current NWL Code of Conduct Available on the Council's website and in the Constitution www.nwleics.gov.uk.</p>

Recommendations	<p>(1) THAT THE DRAFT MEMBER CONDUCT ANNUAL REPORT 2013/14 BE RECEIVED AND NOTED;</p> <p>(2) THAT AUTHORITY BE DELEGATED TO THE HEAD OF LEGAL & SUPPORT SERVICES AND MONITORING OFFICER TO MAKE ANY MINOR AMENDMENTS TO THE REPORT FOLLOWING COMMENTS FROM THE AUDIT AND GOVERNANCE COMMITTEE;</p> <p>(3) THAT COUNCIL BE RECOMMENDED TO ENDORSE THE MEMBER CONDUCT ANNUAL REPORT 2013/14.</p>
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1. INTRODUCTION

- 1.1 It is important that the work of the Audit and Governance Committee should be visible to the Authority and wider public. It is felt that the annual report acts as a helpful tool in communicating the work undertaken by the Audit and Governance Committee to the public and to Members.
- 1.2 The Committee is recommended to receive and note the draft Member Conduct Annual Report and authorise the Head of Legal and Support Services and Monitoring Officer to make any necessary amendments following comments from this Committee before being recommended to Council for endorsement.



MEMBER CONDUCT ANNUAL REPORT 2013-2014

1. Introduction

This is the Member Conduct Annual Report of North West Leicestershire District Council's Audit and Governance Committee and covers the period from 1st April 2013 to 31st March 2014.

In addition to the responsibilities detailed in the Terms of Reference below, the Audit and Governance Committee promotes high standards of conduct by District Council Members and Members of Town/ Parish Councils in North West Leicestershire. The Audit and Governance Committee complies with the requirements of the Localism Act 2011, the regulations and the guidance provided under that legislation, together with Council's adopted Arrangements.

On 27 June 2012 Council adopted the North West Leicestershire Code of Conduct for Members which had been drafted by Members for Members. The Code incorporates all the legislative requirements under the Localism Act 2011 in relation to Disclosable Pecuniary Interests together with retaining the personal obligations in existence under the previous regime.

2. Terms of Reference

Membership: Ten councillors

Quorum: Three District councillors

Terms of Reference:

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 be responsible for the financial reporting process. In particular:

- Consider the effectiveness of the Authority's risk management arrangements, the control environment, and anti fraud and corruption arrangements
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors
- Be satisfied that the Authority's assurance statements properly reflect the risk environment and any actions required to improve it
- Approve (but not direct) Internal Audit's strategy and plans and monitor performance
- Review summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary
- Receive the annual report of Internal Audit
- Consider plans of External Audit and inspection agencies
- Monitoring of relevant reports and action plans
- Ensure there are effective relationships between Internal and External Audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted
- Approve the Council's statement of accounts, income and expenditure and balance sheet and receive the External Auditor's opinion and reports to members, and monitor management action in response to the issues raised by External Audit
- To deal with the Annual Audit and Inspection letter and in particular to:
 - consider matters raised in the annual governance report
 - agree, if necessary, to adjust the financial statements
 - approve the representation letter on behalf of the Council

- consider and agree, if considered appropriate, any actions proposed in the annual governance report and statement
- To have delegated authority to deal with all matters relating to the Council's final accounts

Sub-committees of the Audit and Governance Committee

All Audit and Governance Committee members will form a pool from which members will be drawn based on their availability and the requirements of the particular Sub-committee as and when required.

Assessment Sub-committee

Assessment of complaints in accordance with the Council's Guidance and to either:

- Determine that there should be no further action
- refer the matter for full investigation
- refer the matter for other action

Review Sub-committee

Consideration of requests for a review in accordance with the Council's Guidance.

Determinations Sub-committee

To receive reports from the investigating officer and to decide either:

- to determine finding of no failure to comply with the Code of Conduct
- to determine finding of failure to comply with the Code of Conduct and impose relevant sanctions
- refer the matter for other action

3. Composition

District Councillors

All appointed by Council on 21 May 2013

Councillor A Bridges
 Councillor J Cotterill
 Councillor D De Lacy
 Councillor D Everitt
 Councillor G Jones
 Councillor C Large
 Councillor T Neilson
 Councillor A C Saffell
 Councillor N Smith
 Councillor R Woodward

Parish Representatives

Councillor P Thomas

To be formally appointed at the Audit and Governance Committee on 26 March 2014:

Councillor K Grove
 Councillor R Martin

Councillor S McKendrick

Independent Persons

The legislation requires the Council to appoint at least one Independent person who potentially advises all those involved in a Standards complaint, including the Monitoring Officer, and who must be consulted prior to the determination of a complaint.

Through an open advertising process conducted with partner authorities the Council appointed the following pool of independent persons from whom one can be drawn as and when required:

Colin Headley
Christine Howell
Desmond Henderson
David Lamb
Gordon Grimes
Hugh Pearson
Lee Hughes
Ruth Auton
Richard Gough

The main officer support for the Committee is provided by the Monitoring Officer (Elizabeth Warhurst), the Deputy Monitoring Officer (Dave Gill) and the Local Member Support Officer (Rachel Wallace).

4. Meetings and Work Programme

The Audit and Governance Committee meets a minimum of four times per annum. In addition to its scheduled meetings, sub committees still meet on an ad hoc basis in order to consider and determine allegations of Member conduct. The Committee has its main work planned in advance through a Work Programme which enables it to be more proactive, strategic and focused in its approach to key issues.

5. Reporting Arrangements

The Audit and Governance Committee receives quarterly reports which have enabled Members to be reminded of the issues it has dealt with during each quarter and address any issues which this has highlighted.

6. Procedures and Workloads

(a) Dispensations

During 2013/14, there were no applications received for a dispensation from either District or Parish members.

The Monitoring Officer was asked for and offered advice to Parishes with regards to the setting of the Parish precept and how that might impact on Member's duty in relation to Disclosable Pecuniary Interests. The advice provided was consistent with the position of local authorities across the County and was confirmed in follow-up guidance issued by Government.

(b) Complaints made to the Monitoring Officer under the New Code of Conduct 2013/14

<u>Complaints made:-</u>	8
by Members of the Public	3
by Parish Councillors	0
by District Councillors	3
by Parish Clerk	0
by Council officer	2

Complaints against:-

a Parish Councillor	3
against a District Councillor	5

(c) Complaints referred to the Standards Assessment Sub Committee

From the above-mentioned complaints:-

2 were referred to the Standards Assessment Sub Committee who determined one case of no further action and one case be referred to the Monitoring Officer for other action

3 complaints were withdrawn

5 complaints were resolved informally

1 complaint is still at informal resolution stage.

(d) Members' Register of Interests

The Local Member Support Officers undertake regular checks of the Register of Members' Interests and provide advice and assistance to Parish Councils on the completion of the Registers.

7. Policies & Procedures

The Audit and Governance Committee oversees the ethical framework of the Council including oversight of:

- the Whistle Blowing Policy
- complaints handling
- Ombudsman investigations.

**Elizabeth Warhurst
Monitoring Officer**

**Councillor T Neilson
Chairman**

OUR VISION

North West Leicestershire will be a place where people and businesses feel they belong and are proud to call home

**Legal and Support Services
North West Leicestershire District Council
Council Offices, Whitwick Road, Coalville, Leicestershire, LE67 3FJ**

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 26 MARCH 2014

Title of report	NOMINATION OF PARISH MEMBERS
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Head of Legal and Support Services and Monitoring Officer 01530 454762 elizabeth.warhurst@nwleicestershire.gov.uk</p>
Purpose of report	To seek the Committee's approval to the proposed nominations of Parish Members to the Assessment and Determinations Sub Committee as required.
Council Priorities	Homes and Communities
Implications:	
Financial/Staff	All work undertaken falls within the work the team are already doing in this area therefore there are no additional resource implications.
Link to relevant CAT	None
Risk Management	The Council's governance arrangements are a fundamental part of the Authority's management of risk and contribute towards good corporate governance.
Equalities Impact Assessment	Equality Impact Assessment already undertaken, any issues identified have been actioned.
Human Rights	None identified
Transformational Government	No direct implications
Consultees	Parish Members
Background papers	<p>Council report dated 23 February 2012 Localism Act 2011 Report</p> <p>Council report dated June 2012 Localism Act 2011 Report</p> <p>Localism Act 2011 http://www.legislation.gov.uk/ukpga/2011/20/contents/enacted</p>

	Report to Audit and Governance Committee 11 December 2013 Nomination of Parish Members Report
Recommendations	TO RECEIVE AND APPROVE THE NOMINATIONS AS SET OUT IN PARAGRAH 2.1 OF THE REPORT.

1.0 BACKGROUND

- 1.1 Members will recall from the December report that two Parish Members resigned their positions and that the term of office of another Member, who was previously nominated to sit on the Standards Committee, had expired. There were therefore, three vacancies for Parish Members.
- 1.2 Following the approval by Members of the proposed process Democratic Services sought to gather nominations from Parish Councils.

2.0 NOMINATIONS

- 2.1 As a result of that work the District Council received nominations from:
- Kelly Grove – Oakthorpe, Donisthorpe and Acresford Parish Council
 - Robert Martin – Packington Parish Council
 - Susan McKendrick – Ashby Woulds Town Council
- 2.2 As only 3 nominations were received it is proposed that the Committee accept these nominations to fill the vacant seats.

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 26 MARCH 2014

Title of report	EXTERNAL AUDIT PLAN 2013-14
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Chief Executive 01530 454500 christine.fisher@nwleicestershire.gov.uk</p> <p>Head of Finance 01530 454520 ray.bowmer@nwleicestershire.gov.uk</p>
Purpose of report	To approve the External Audit Plan for 2013-14
Council Priorities	Value for Money
Implications:	
Financial/Staff	No direct implications.
Link to relevant CAT	None
Risk Management	The External Audit is an essential part of the Council's arrangements for compliance with laws and regulations, as well as maintaining good Value for Money.
Equalities Impact Assessment	Not applicable
Human Rights	No direct implications.
Transformational Government	No direct implications.
Consultees	None
Background papers	None
Recommendations	THE AUDIT AND GOVERNANCE COMMITTEE IS ASKED TO APPROVE THE ATTACHED EXTERNAL AUDIT PLAN FOR 2013-14.

1.0 BACKGROUND

- 1.1 The 2013/14 Financial Year is drawing to a close. Each year the External Auditor provides the Audit Plan for the forthcoming audit of the Council's accounts. This is presented at Appendix A for approval by this Committee. Representatives of the Council's External Auditors, KPMG will attend the meeting to answer the Committee's questions.



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External Audit Plan 2013/14

North West Leicestershire District Council

March 2014

The contacts at KPMG in connection with this report are:

John Cornett
Director

KPMG LLP (UK)

Tel: 0116 256 6064
john.cornett@kpmg.co.uk

Sarah Brown
Senior Manager

KPMG LLP (UK)

Tel: 0121 232 3694
sarah.brown1@kpmg.co.uk

Victoria Ellis
Assistant Manager
KPMG LLP (UK)

Tel: 0121 232 3467
victoria.ellis@kpmg.co.uk

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

This document describes how we will deliver our audit work for North West Leicestershire District Council.

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* presented to you in April 2013. It describes how we will deliver our financial statements audit work for North West Leicestershire District Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements and Value for Money audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 describes our assessment of your key risks.
- Section 5 describes our approach to other audit issues.
- Section 6 explains our approach to VFM work.
- Section 7 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<p>Audit approach</p>	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Head of Finance.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
<p>Key financial statements audit risks</p>	<p>We have completed our initial risk assessment for the financial statements audit and have identified one significant risks this year in relation to the triennial pension valuation for the Local Government Pension Scheme.</p>
<p>VFM audit approach</p>	<p>We have completed our initial risk assessment for the VFM conclusion and have not identified any significant risks at this stage.</p>
<p>Audit team, deliverables, timeline and fees</p>	<p>We have refreshed our audit team this year. Sarah Brown, Senior Manager has worked at KPMG for a number of years and brings a wealth of experience in local government and housing to the audit team. She will liaise closely with John to ensure the delivery of a smooth and efficient audit. Victoria Ellis, Assistant Manager works closely with Sarah on a number of clients and will lead the team on site. She has experience leading teams at number of local authorities including other district and some large county councils.</p> <p>Our main year end audit is currently planned to commence on 4th August 2014. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2013/14 audit is £66,462. This is unchanged from the position set out in our <i>Audit Fee Letter 2013/14</i>.</p>

Section three Our audit approach

We undertake our work on your financial statements in four key stages during 2014:

- **Planning**
(January to February).
- **Control Evaluation**
(February to April).
- **Substantive Procedures**
(July to August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



Section three

Our audit approach – planning

During January and February 2014 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

Our planning work takes place in January and February 2014. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

During March and April 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14.

We work with your finance team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our interim visit on site will be completed from 17th to 21st March 2014. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit and Governance Committee in June 2014.

Controls over key financial systems

We update our understanding of the Authority’s key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our audit approach – substantive procedures

During August 2014 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report to the Audit and Governance Committee* in September 2014.

Our final accounts visit on site has been provisionally scheduled for the period 4th to 15th August 2014. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit and Governance Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Head of Finance in August 2014, prior to reporting to the Audit and Governance Committee in September 2014.

Audit adjustments

During our on site work, we will meet with the Head of Finance on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

In addition to auditing the financial statements, we review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

Electors challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit and Governance Committee. Our deliverables are included on page 16.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit and Governance Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

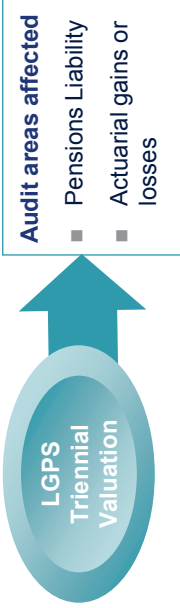
We confirm that as of the date of this report in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Section four Key financial statements audit risks

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2013/14.

For the key risk area we have outlined the impact on our audit plan.

The table on the below sets out the significant risk we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2013/14.
We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key audit risks	Impact on audit
<div style="text-align: center;">  <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Pensions Liability ■ Actuarial gains or losses </div>	<p>Risk</p> <p>During the year, the Local Government Pension Scheme for Leicestershire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Leicestershire County Council who administer the Pension Fund based on information received from North West Leicestershire District Council and the other district Councils in Leicestershire.</p> <p>Our audit work</p> <p>As part of our audit, we will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data.</p> <p>We will liaise with the separate KPMG audit team for the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf.</p>

In this section we set out other audit issues which are significant in terms of our audit approach.

- Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.
- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
 - Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.
- Our initial assessment has not identified any risks that are specific to the Authority.
- We will revisit our assessment throughout the year and should any risks present themselves we will adjust our audit strategy as necessary.

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

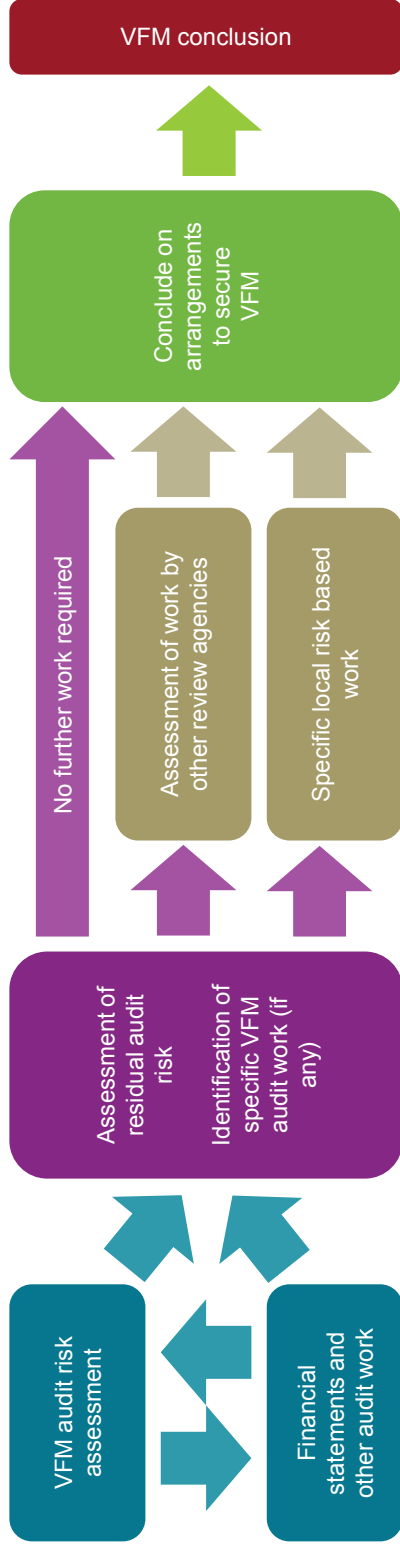
Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

Section six VFM audit approach (continued)

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ information from the Audit Commission's VFM profile tool and financial ratios tool; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of other inspectorates and review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
<p>Linkages with financial statements and other audit work</p>	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
<p>Assessment of residual audit risk</p>	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
<p>Identification of specific VFM audit work</p>	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have not identified any risks to our VFM conclusion at this stage. We will update our assessment at year end.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
<p>Delivery of local risk based work</p>	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We have completed our initial VFM risk assessment and have not identified any key issues. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Your audit team has been drawn from our specialist public sector assurance department.

Our audit team has changed from last year with the exception of John Cornett as Director. Sarah and Victoria have a wide range of local government and public sector experience and will work closely with John to ensure a smooth and efficient audit.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



John Cornett
Director

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit and Governance Committee and Chief Executive.”



Sarah Brown
Senior Manager

“I provide quality assurance for the audit work and specifically any technical accounting and risk areas.

I will work closely with John to ensure we add value.

I will liaise with the Head of Finance and other Executive Directors.”



Victoria Ellis
Assistant Manager

“I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.”

Section seven Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report as appropriate with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> Outlines our audit approach. Identifies areas of audit focus and planned procedures. 	March 2014
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> Details control and process issues. Details the resolution of key audit issues. Communicates adjusted and unadjusted audit differences. Highlights performance improvement recommendations identified during our audit. Comments on the Authority's value for money arrangements. 	September 2014
Completion		
Auditor's Report	<ul style="list-style-type: none"> Provides an opinion on your accounts (including the Annual Governance Statement). Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2014
Annual Audit Letter	<ul style="list-style-type: none"> Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2014

We will be in continuous dialogue with you throughout the audit.

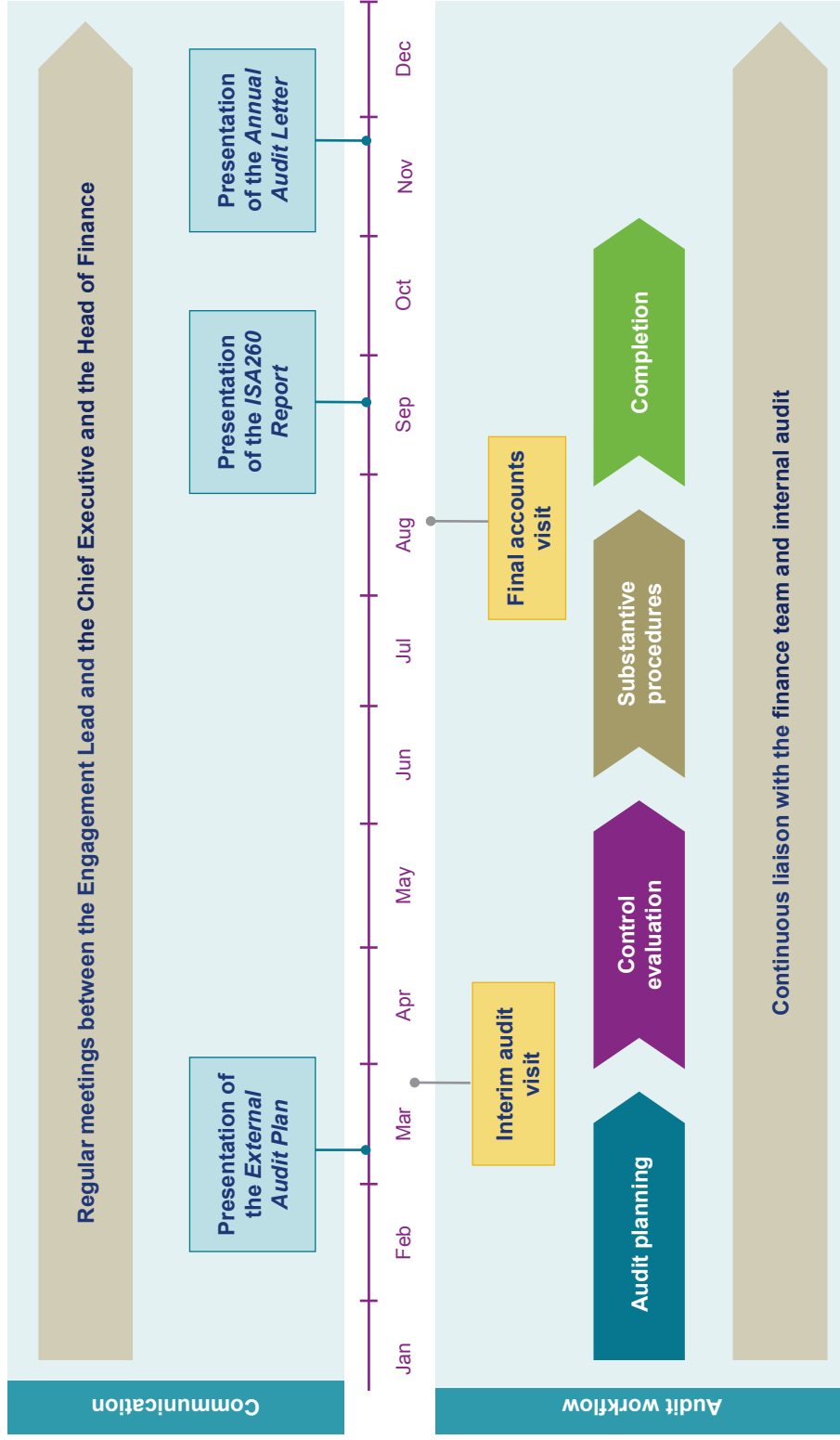
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visit during March.
- Final accounts audit during August.



The fee for the 2013/14 audit of the Authority is £66,462. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in April 2013.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2013/14 is **£66,462**.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Head of Finance.

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG. We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. John Cornett as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced existing audit functionality. eAudit enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

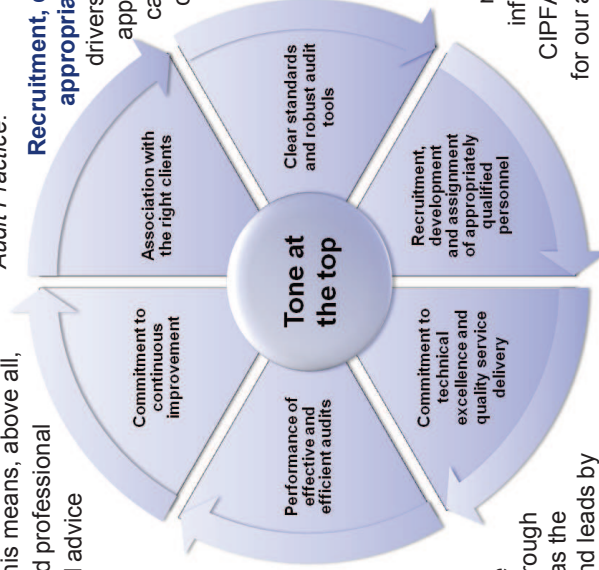
Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.



Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up-to-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.



cutting through complexity™

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 26 MARCH 2014

Title of report	PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) UPDATE REPORT
Contacts	Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk Senior Auditor 01530 454728 anna.wright@nwleicestershire.gov.uk
Purpose of report	To update the Audit Committee on progress towards achieving conformance with the Public Sector Internal Audit Standards.
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Council Priorities	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	Not Applicable
Equalities Impact Assessment	Not Applicable
Human Rights	None
Transformational Government	Not Applicable
Consultees	Corporate Leadership Team
Background papers	Public Sector Internal Audit Standards
Recommendations	THAT THE COMMITTEE NOTES THIS REPORT AND COMMENTS AS APPROPRIATE.

1. INTRODUCTION

- 1.1 Since April 2013, internal audit services across the public sector have been governed by the Public Sector Internal Audit Standards (the Standards). The Standards apply to all internal audit service providers, whether in-house, shared services or outsourced. The Chartered Institute of Public Finance and Accountancy (CIPFA) have also produced an Application Note as the sector-specific requirements for local government organisations. A report providing an overview and the implications of the Standards was reported to this committee in June 2013.

2. SELF ASSESSMENT AND ACTION PLAN

- 2.1 A self assessment using the CIPFA Checklist for assessing conformance with the Public Sector Internal Audit Standards and the Local Authority Application Note was carried out in January 2014 by the Senior Auditor and reviewed by the Head of Finance. Conformance with the Standards was assessed at approximately 40%.
- 2.2 An action plan has been produced (Appendix A), identifying the actions required to ensure conformance with the Standards by 31st March 2015. It was originally anticipated that Internal Audit would be in conformance with the Standards by the 31st March 2014, however when the Application Note was released in April 2013, more actions were required to be undertaken than originally forecast and there is limited resources available within the audit team to undertake the work required. It should also be noted that due to the size of the Internal Audit team and the resources available, 100% conformance with the Standards is not feasible. All areas of non-conformance will be reported in the Internal Audit Annual Opinion report.

3. UPDATE ON ACTIONS DUE

- 3.1 Table 1 below details an update on the actions scheduled to be completed during quarter 4.

Table 1: Progress against PSIAS Action Plan

Action		Progress
1	Set-up quarterly meetings with the Chair of the Audit Committee.	Chair briefing meeting arranged prior to the Audit Committee meeting.
2	Develop comprehensive performance targets for Internal Audit.	Comprehensive performance targets have been produced for 2014-15 and are documented in Appendix B for review and comment.
3	Review the format of the Engagement Plan (Terms of Reference) to ensure conformance with the PSIAS.	A revised template for the Engagement Plan has been produced and is documented in Appendix C for review and comment.
4	Review the format of the Engagement Programme (Audit Programme) to ensure conformance with the PSIAS.	The format of the Engagement Programme has been updated.
5	Update the Internal Audit Report format to ensure conformance with the PSIAS.	The Internal Audit Report format has been revised and is documented in Appendix D for review and comment.
6	Update the 'Issuing of reports and the monitoring and follow up of management actions' process.	The Issuing of Reports and the Monitoring of Management actions' process has been updated and is documented in Appendix E for review and comment.

Action		Progress
7	Produce a risk based annual audit plan.	A risk based plan has been produced for 2014-15 and is included as a separate item on the agenda.
8	Update the Progress Report to Managers and Audit Committee Members to ensure conformance with the PSIAS.	The Progress Report format has been updated and is included as a separate item on the agenda.
9	Update the Declaration of Interest Form for Internal Audit Staff.	The Declaration of Interest form has been revised and will be signed after the training in relation to the Bribery Act 2010.
10	The Senior Auditor to provide the Internal Auditors with training in relation to the Bribery Act 2010.	Training is scheduled for week commencing the 24 th March 2014.

Appendix A

Public Sector Internal Audit Standards (PSIAS) – Action Plan

Action		Target Date
1	Set-up quarterly meetings with the Chair of the Audit Committee.	28 th February 2014
2	Develop comprehensive performance targets for Internal Audit.	28 th February 2014
3	Review the format of the Engagement Plan (Terms of Reference) to ensure conformance with the PSIAS.	28 th February 2014
4	Review the format of the Engagement Programme (Audit Programme) to ensure conformance with the PSIAS.	28 th February 2014
5	Update the Internal Audit Report format to ensure conformance with the PSIAS.	28 th February 2014
6	Update the issuing of reports and the monitoring and follow up of management actions process.	28 th February 2014
7	Produce a risk based annual audit plan.	31 st March 2014
8	Update the Progress Report to Managers and Audit Committee Members to ensure conformance with the PSIAS.	31 st March 2014
9	Update the Declaration of Interest Form for Internal Audit Staff.	31 st March 2014
10	The Senior Auditor to provide the Internal Auditors with training in relation to the Bribery Act 2010	31 st March 2014
11	Review the Annual Internal Audit Opinion Report to ensure conformance with the PSIAS.	31 st May 2014
12	The Head of Finance to obtain feedback on the performance of the Chief Audit Executive from the Chief Executive, the Chair of the Audit Committee and Blaby District Council as part of the appraisal process.	31 st May 2014
13	Undertake a self-assessment against the PSIAS.	30 th June 2014
14	Agree the process for the acceptance and authorisation of consulting engagements.	30 th June 2014
15	Develop a Quality Assurance and Improvement Programme.	30 th September 2014
16	Review and update the job descriptions and personal specifications for Internal Audit Staff.	30 th September 2014
17	Assess the collective skills, knowledge and competencies of the Internal Audit Team.	31 st December 2014
18	Develop a programme of continuing professional development	31 st December 2014
19	Update the Internal Audit manual.	31 st December 2014
20	Review the computer assisted audit techniques available and access whether they could be used to perform audit testing.	31 st December 2014
21	Undertake an assurance mapping exercise.	31 st January 2015
22	Produce an Internal Audit Strategy in conformance with the PSIAS.	28 th February 2015
23	Produce a risk based annual audit plan in conformance with the PSIAS.	28 th February 2015
24	Undertake a fraud evaluation of the authority.	31 st March 2015

2014/15 Internal Audit Performance Targets

Deliver the Internal Audit Service within Budget

Achievement of the Internal Audit Plan

Quarterly Progress Reports to Management Team and Audit Committee

Completion of the PSIAS Action Plan

Follow up testing completed in month agreed in final report

Annual Opinion Report - June 2014 Audit & Governance Committee Meeting

2015/16 Audit Plan approved by 31st March 2015

100% Customer Satisfaction with the Internal Audit Service

Unproductive time less than 25%



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council Engagement Plan – Title of Audit Area

1. Introduction

1.1 This audit is being undertaken as part of the agreed audit plan for 2014/15.

2. Scope and Limitations of the Review

2.1 To evaluate the adequacy of *title of audit area* and the controls within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put into place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

The scope will include:

- *systems, records, personnel & premises*
- *time period to be examined: e.g. transactions between 1st April 2013 and 31st March 2014*
- *areas that will not be covered.*

2.2 Internal Audit will undertake a review of the *title of audit area*, subject to the limitations outlined below:

Internal Control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Our assessment of controls relating to *title of audit area* is as at April 2014 to xxx. Historical evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavour to plan its work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

3. Audit Methodology

- 3.1 Internal Audit works to an risk based methodology which entails identifying risks to the governance, risk and control framework for the area under review – internal audit them seeks to collate and analyse information to understand how these risks are or have been managed.

4. Management Concerns

- 4.1 *Any management concerns will be documented.*

5. Risk Assessment

- 5.1 *A risk assessment will be completed in conjunction with management for the area under review.*

6. Objectives

- 6.1 The overall objective in undertaking this internal audit is to ensure, through a process of systems evaluation and compliance testing, that there is an appropriate control framework in place to achieve the following key control objectives for the system:

- *these will be identified by management based on the areas that they require assurance/risks identified.*

The Engagement Programme will detail the testing to be carried out.

7. Timing

- 7.1 The audit is planned to commence during x.

8. Resource Allocation

8.1 The audit review is planned to take x days.

Internal Audit will also require xxx to complete the audit.

9. Reporting

9.1 The reporting will be as detailed in the table below:

	Management Review	Draft Report	Final Report
Head of Service			
Team Manager			
Director			
Portfolio Holder			
External Audit (Key Financial Systems Only)			
Audit Committee Members (Grade 3 & 4 Reports Only)			

10. Contacts

10.1 The key contact for Internal Audit is Anna Wright, Senior Auditor and is available on 01530 454728 or anna.wright@nwleicestershire.gov.uk.

The auditor undertaking the audit will be x and is available on 01530 454xxx or xxx@nwleicestershire.gov.uk.

11. Objectives Agreed:

Signed:

Date:

Access to engagement records is restricted to NWLDC management, the Audit and Governance Committee and specific external agencies such as the Council’s external auditors.



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council

Internal Audit Report 2014/15

No – Audit Report Title

Auditor:

Date of Issue:

Version Number: 1.1

Status: Draft/Final

Assurance: Grade x
 Internal Controls xxxx

This report is confidential and produced solely for the purpose of North West Leicestershire District Council's management and the Audit and Governance Committee.

Details may be made available to specific external agencies, including the council's external auditors, but otherwise the report should not be quoted or referred to in whole or part without prior consent.

No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

Contents:

	Page No
Executive Summary	
Introduction	
Scope and Limitations of the Review	
Audit Methodology	
Objectives of the Audit	
Audit Opinion	
Findings	
Action Plan	
Definitions	

Report Circulation:

	Management Review	Draft Report	Final Report
Head of Service			
Team Manager			
Director			
Portfolio Holder			
External Audit (Key Financial Systems Only)			
Audit Committee Members (Grade 3 & 4 Reports Only)			

Executive Summary

Assurance Opinion

Grade X Internal Controls require xxx

Key Findings

The main areas identified for improvement are:

- x;
- x; and
- x.

Recommendations

	High	Medium	Low	Advisory
Made				
Agreed				
Risk Accepted				

1. Introduction

- 1.1 An internal audit review of the x function has been completed in accordance with the agreed 2014-15 audit plan during the period xxx to xxx 2014.
- 1.2 The assistance and co-operation of management and staff during the course of this audit is gratefully acknowledgment.

2. Scope and Limitations of the Review

- 2.1 To evaluate the adequacy of the x function and the controls within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.
- 2.2 Internal Audit have undertaken a review of the x function, subject to the limitations outlined below:

Internal Control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Our assessment of controls relating to the x function is as at xxx to xxx 2014. Historical evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavour to plan its work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

3. Audit Methodology

- 3.1 Internal Audit works to an risk based methodology which entails identifying risks to the governance, risk and control framework for the area under review – internal audit then seeks to collate and analyse information to understand how these risks are or have been managed.

4. Objectives of the Audit

- 4.1 The overall objective in undertaking this internal audit was to ensure, through a process of systems evaluation and compliance testing, that there is an appropriate control framework in place to achieve the following key control objectives for the system:

- x;
- x;
- x;
- x; and
- x.

- 4.2 This report highlights findings on an exception basis and does not therefore include detail of controls that audit found to be operating satisfactorily. The Internal Audit Opinion, detailed in section 5 of the report, provides an overall assessment regarding the level of control operating in the system.

5. Audit Opinion

5.1 Overall Opinion

Our findings indicate that internal controls require **xxx** and accordingly the report is graded x within the following scale:

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

5.2 Opinion for each control objective

Key Control Objective:		Level of Assurance				N/A
		1	2	3	4	
1						
2						
3						
4						
5						

5.3 The matters raised in this report are only those which came to our attention during internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or all the improvements that may be required. Whilst every care has been taken to ensure that the information contained in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained therein. Our work does not provide absolute assurance that material errors, losses or fraud do not exist.

6 Detailed Findings

6.1 Objective x:

Audit Findings	
Risk	
Recommendation	Priority
Management Response	
Officer Responsible	Target Date

6.2 Objective x:

Audit Findings	
Risk	
Recommendation	Priority
Management Response	
Officer Responsible	Target Date

Action Plan

Recommendation	Officer Responsible	Target Date	Audit Follow Up Date
1			
2			
3			

Definitions**Audit Opinion**

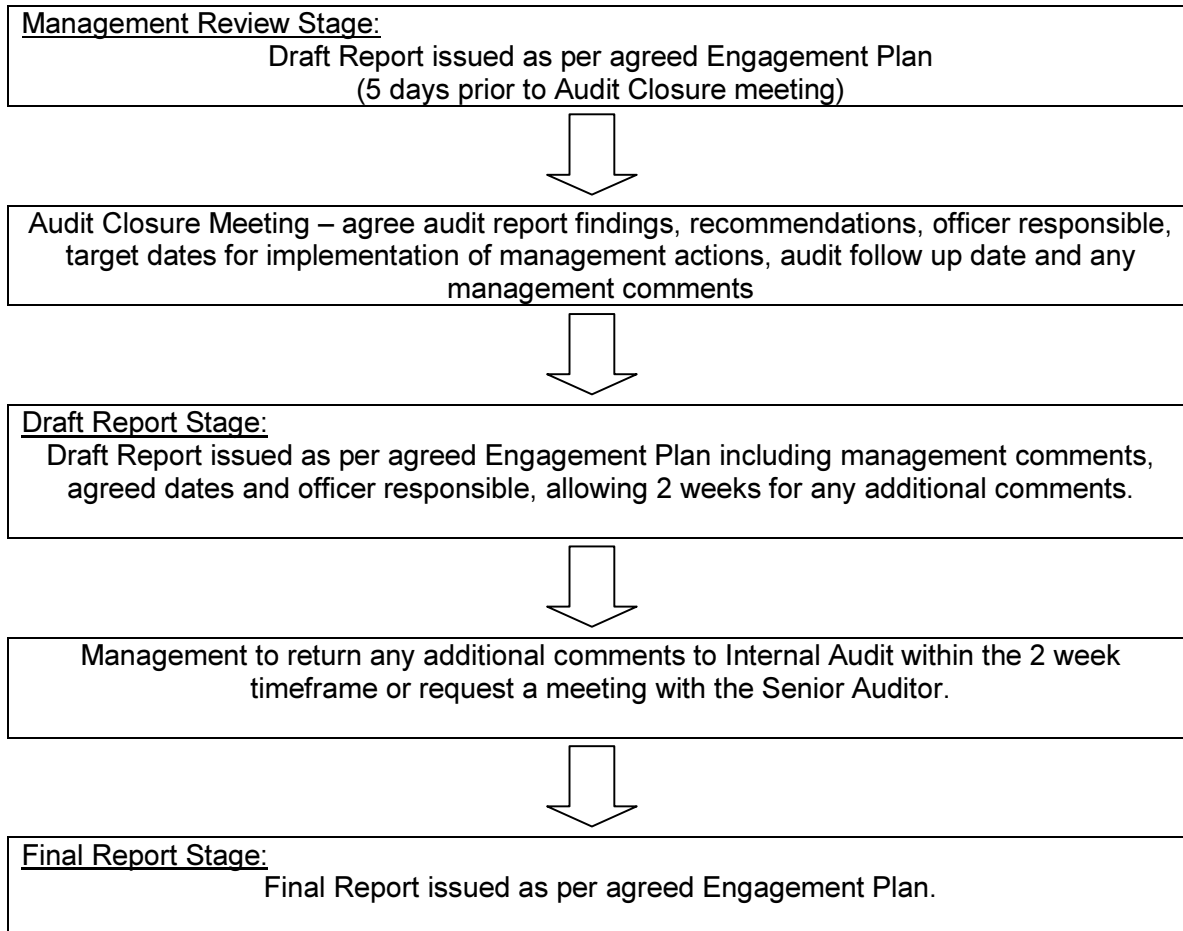
Grade	Definition
1	Internal Controls are adequate in all important aspects
2	Internal Controls require improvement in some areas
3	Internal Controls require significant improvement
4	Internal Controls are inadequate in all important aspects

Recommendation Priority

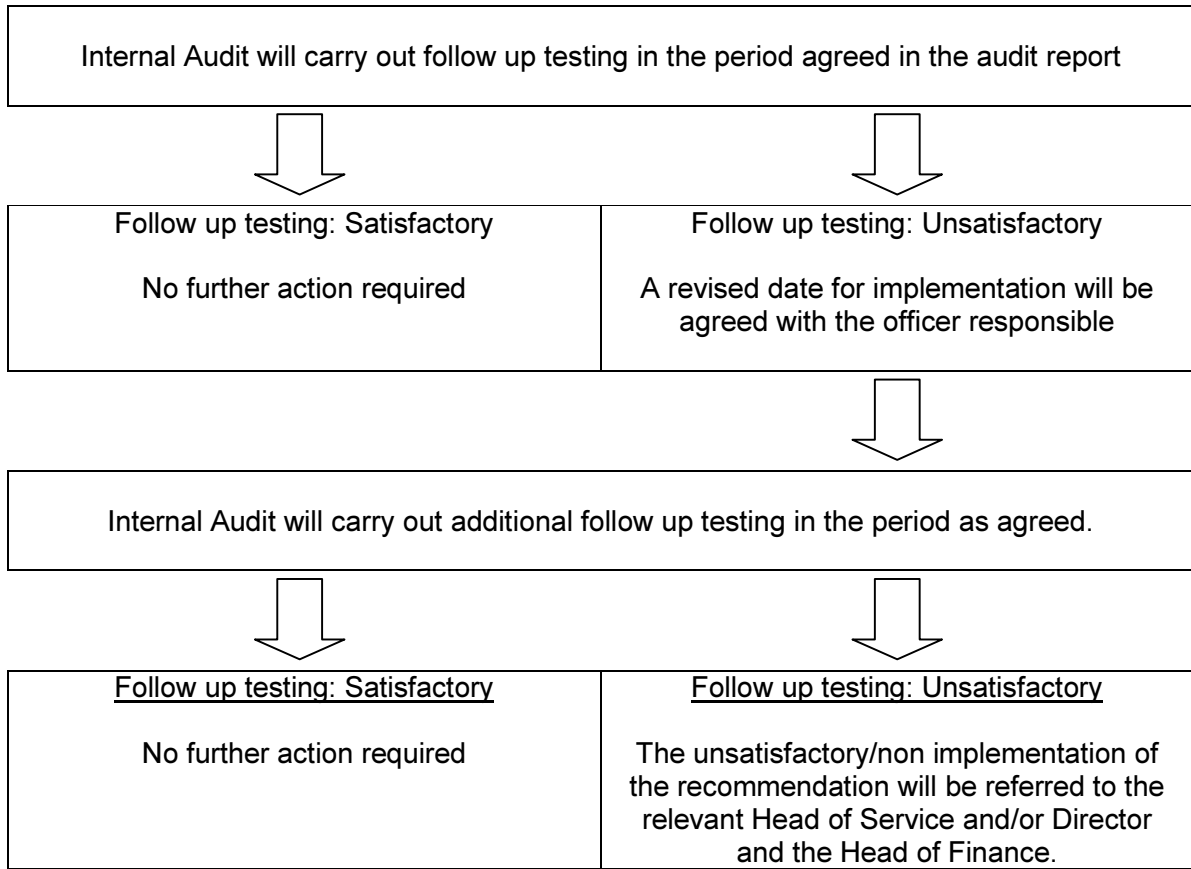
Level	Definition
High	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Medium	Recommendations which, although not fundamental to the system, provide scope for improvements to be made,
Low	Recommendations concerning issues which are considered 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.

Issuing of Internal Audit Reports and Follow Up of Management Actions Process

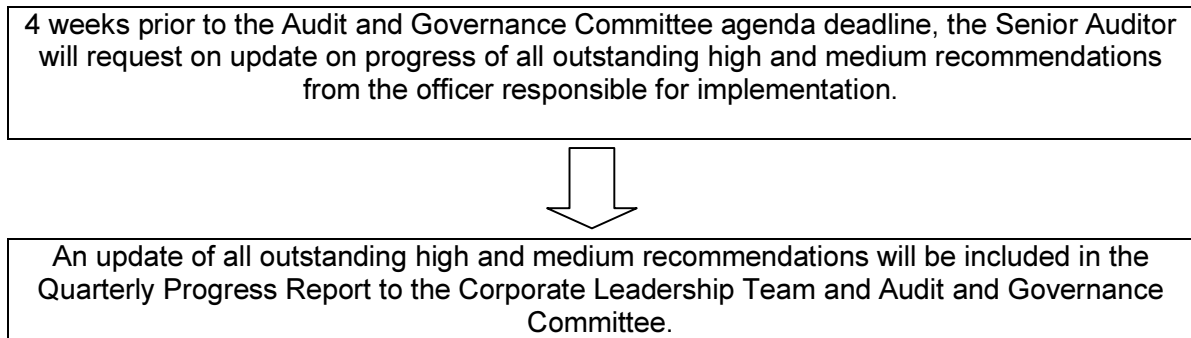
Issuing of Internal Audit Reports:



Follow-up of High & Medium Recommendations:



Monitoring of Recommendations:



NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 26 MARCH 2014

Title of report	INTERNAL AUDIT PROGRESS REPORT APRIL 2013 – FEBRUARY 2014
Contacts	Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk Senior Auditor 01530 454728 anna.wright@nwleicestershire.gov.uk
Purpose of report	To inform the committee of the progress against the internal audit plan for 2013/14 and to highlight incidences of any significant control failings or weaknesses.
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Council Priorities	Value for Money
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	Public Sector Internal Audit Standards
Recommendations	THAT MEMBERS NOTE THE CONTENTS OF THE REPORT AND CONSIDER WHETHER THE INFORMATION IT CONTAINS, AND THE WAY IN WHICH THE INFORMATION IS PRESENTED, MEETS THE NEEDS OF THE COMMITTEE.

1. INTRODUCTION

- 1.2 The Public Sector Internal Audit Standards require 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 the Audit Plan on 27 March 2013.

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 be responsible for the financial reporting process'.

3. PROGRESS REPORT

- 3.1 The Internal Audit Progress Report for the period April 2013 to February 2014 is attached at Appendix 1.



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council
Internal Audit Progress Report: April 2013 - February 2014

1. Introduction

- 1.1 The assurances received through the Internal Audit programme is 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 2013/14 Internal Audit Plan up to the end of February 2014.

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 plays 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 the control environment, and therefore contribute to the achievement of the organisation's objectives.
- 2.2 This is achieved through Internal Audit providing a combination of assurance and consulting 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 2011, the Internal Audit Charter and the Council's Constitution. The Financial Regulations, which are part of the Constitution, sets 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 performance 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. There are no impairments to report to senior management and the Audit and Governance Committee for the current financial year.

6 Internal Audit Plan Update

- 6.1 A progress report against the 2013-14 Internal Audit plan is documented in Appendix A. The plan is currently on track to be completed by the end of March, and progress is summarised in Chart 1 below. Chart 2 shows a summary of the assurance levels for all completed audit reviews.

Chart 1: Audit Plan Completion

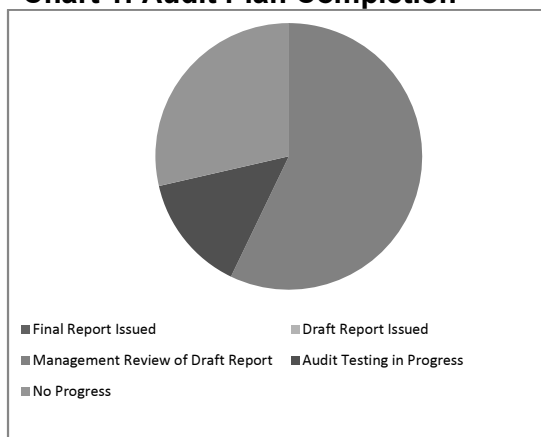
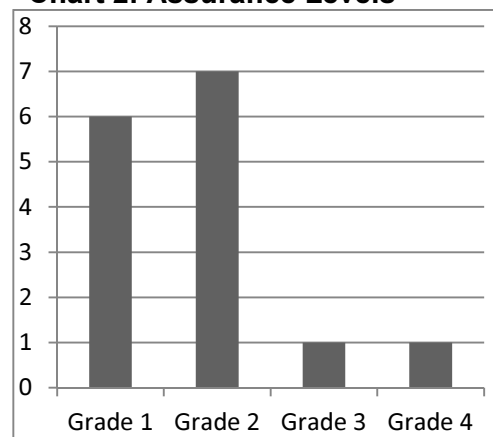


Chart 2: Assurance Levels



- 6.2 An Executive Summary of all final reports issued since the progress report issued in December 2013 are documented in Appendix B.

There have been two internal audit reports issued in 2013-14 that have identified significant control weaknesses and will have a significant impact on the overall assurance opinion.

- The Risk Management audit concluded that internal controls require significant improvement. The main areas identified for improvement were:
 - the NWLDC Risk Management Strategy created in 2009 should be reviewed for changes in structure, personnel and the procedures contained therein and the agreed policy should then be followed;
 - regular reports should be taken to the Cabinet and Audit and Governance Committee to provide assurance to Members that risks are being managed appropriately; and
 - the Corporate Risk Register Action Plan should be generated as set out in the Risk Management Strategy.

The recommendations to improve the internal control were due to be implemented in January 2014, however a revised date of July 2014 has been agreed.

2. The Housing Maintenance audit has been completed and the report has been issued in draft for management review. The audit concluded that internal controls are inadequate in all important areas. The areas for improvement will be reported in the next progress report once the report has been finalised.
- 6.3 The Internal Audit plan needs to be flexible in order to reflect current issues and resource requirements. Since the previous progress report Internal Audit has employed a temporary Internal Auditor through an agency for the period 20th January – 28th February 2014 to complete four of the main systems audits. The Internal Audit plan has been reviewed and updated.

7 Internal Audit Recommendations

- 7.1 Internal Audit monitors and follows up all medium and high risk recommendations. Appendix C lists all outstanding recommendations along with a status report. Nine recommendations outstanding have not been implemented by the agreed target date. Non implementation of recommendations exposes the council to risks within the internal control environment as highlighted within the internal audit report.

8 Internal Audit Performance Indicators

- 8.1 Period 11 performance information for Internal Audit in relation to its team plan actions and performance indicators is documented in Appendix D.

Audit Plan Progress: April 2013 – February 2014

Audit Area	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
					H	M	L	A	
Main Systems									
Capital Accounting	5	5	Final Report Issued	Grade 1	-	-	-	-	
Cash and Bank	8	5	Final Report Issued	Grade 1	-	-	-	-	
Creditors	8	8	Draft Report Issued – Management Review	Grade 2	-	1	1	2	
Debtors	8	8	Draft Report Issued – Management Review	Grade 2	2	1	1	-	
Main Accounting	8	7	Draft Report Issued – Management Review	Grade 2	2	1	2	-	
Payroll/HR	10	-	Testing scheduled for March 2014						
Rent Accounting	8	5	Audit testing in progress						
Treasury Management	8	7	Final Report Issued	Grade 1	-	-	-	-	
Non Main Systems									
Allocations Audit	0	7	Final Report Issued	Grade 2	4	1	-	-	Additional audit following a Whistleblowing Allegation
Ashby TIC	0	5	Final Report Issued	Grade 2	1	1	-	-	Completion of 2012-13 Audit
Car Parking	8	6	Final Report Issued	Grade 2	3	1	-	-	
Commercial Rents	10	6	Final Report Issued	Grade 1	-	-	-	-	
Development Control	8	5	Final Report Issued	Grade 2	2	1	-	-	
Housing Maintenance	8	30	Draft Report Issued – Management Review	Grade 4	19	-	-	-	Additional testing undertaken due to current areas of concern within the service.
ICT Back Up Controls	2	-	Testing scheduled for March 2014						
Licensing	8	8	Final Report Issued	Grade 1	-	-	-	-	
Strategic Risk Register	10	10	Final Report Issued	Grade 3	3	-	-	-	
Trade Waste	8	4	Final Report Issued	Grade 1	-	-	-	-	

EXECUTIVE SUMMARY OF FINAL AUDIT REPORTS – DECEMBER 2013 – FEBRUARY 2014

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Areas for Improvement	Recommendations			
					H	M	L	A
2013/14 – 9 Capital Accounting	Corporate	Head of Finance Financial Planning Team Manager	Grade 1	None required.	-	-	-	-
2013/14 - 11 Treasury Management	Corporate	Head of Finance Financial Planning Team Manager	Grade 1	None required.	-	-	-	-

Recommendations Tracker – Outstanding High & Medium Recommendations

Report		Recommendation		Rating	Officer Responsible	Target Date	Status
2012/13 Reports							
7	Main Accounting	2	The officer with the responsibility of Systems Administrator for the TASK system should be trained to undertake the role as a matter of urgency.	High	Financial Team Manager	April 2013 Revised Date: March 2014	OVERDUE No Progress
9	Sundry Debtors	1	The latest version of the TASK sundry debtors system should be tested and implemented as soon as possible on the assumption that there will be improved recovery procedures available to NWLDC.	High	Financial Team Manager & Senior Exchequer Services Officer	March 2014	In Progress The debtors recovery module is being installed on the 5 th March by the software providers.
81		3	The review of the outstanding older debts should be accelerated and appropriate recovery action should be undertaken or the debt written off if appropriate i.e. statute barred, debtor gone away etc.	High	Senior Exchequer Services Officer	September 2013 Revised Date: March 2014	OVERDUE In Progress The review of outstanding debts is in progress and amounts have been put forward for write-off.
13	Payroll	5	The outstanding processes for the activation of the suspense account functionality for payroll costing codes should be completed as soon as possible.	High	Finance Team Manager	April 2013 Revised date: October 2013 March 2014	OVERDUE No Progress
		12	A policy should be produced detailing how salary sacrifice payments (car parking, annual leave etc.) will be dealt with during any absence where statutory payments are made.	High	Human Resources Team Manager	April 2013 Revised date: September 2013 December 2013 March 2014	OVERDUE No Progress
2013/14 Reports							
1	Development Control	1	The Development Control procedure notes should be updated to reflect current working practices.	Medium	Planning & Development Team Manager	June 2013 Revised Date: September 2013	OVERDUE No Progress

Report		Recommendation		Rating	Officer Responsible	Target Date	Status
						March 2014	The procedure notes will be updated by the end of March 2014.
2	Car Parking	1	Procedure notes should be created to reflect the current working practices of the Environmental Crimes Assistant.	Medium	Environmental Crimes Assistant/ Wardens Manager	September 2013 Revised Date: March 2014	OVERDUE In Progress Procedure notes have been drafted but still require finalising.
6	Risk Management	1	The NWLDC Risk Management Strategy created in 2009 should be reviewed for changes in structure, personnel and the procedures contained therein.	High	Head of Finance as Chair of RMG	January 2014 Revised Date: July 2014	OVERDUE In Progress The strategy has been updated, but requires further review and approval.
8		2	Regular reports should be taken to the Cabinet and Audit Committees to provide assurance that risks are being managed appropriately.	High	Head of Finance as Chair of RMG	January 2014 Revised Date: July 2014	OVERDUE No Progress
		3	The Corporate Risk Register Action Plan should be generated as set out in the Risk Management Strategy.	High	Head of Finance as Chair of RMG	January 2014 Revised Date: April 2014	OVERDUE In Progress A revised template has been produced, however a number of services have not completed the template.

Appendix D

Internal Audit Performance: April 2013 – February 2014

Performance Measures:

Performance Measure	2013-14 Target	Position as at 28.02.14	Comments
Delivery of Audit Plan – Main Systems	100%	75%	Target will be achieved for 2013-14
Delivery of Audit Plan – Non Main Systems	100%	91%	Target will be achieved for 2013-14
Percentage of Productive Time	75%	60%	The productive time is lower than forecast due to the additional work undertaken in relation to the PSIAS.
Percentage of Client Satisfaction with the Internal Audit Service	100%	100%	
Compliance with the Internal Audit Standards	100%	40%	Target will not be achieved for 2013-14, conformance will be approx 50% by the end of the financial year. An action plan has been produced to ensure conformance (where reasonable) by the end of March 2015.
Compliance testing of completed recommendations	90%	100%	

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Service Plan Actions:

Action	Quarter 4 Milestone	Position as at 28.02.14
Review and update Health and Safety risk assessments to ensure risks to staff and customers are controlled	Undertake actions where appropriate as per action plan	No actions required.
Undertake audits as per agreed Audit Plan	Complete audits of 6 systems to enable the completion of the audit plan	Five audits have been completed this quarter and an additional one is in are currently in progress. The action will be achieved by the end of the quarter.
Provide the Audit Committee with quarterly reports on the work and performance of Internal Audit	Progress report to March Audit Committee	Progress Report to Audit & Governance Committee – 26 th March 2014
To be compliant with the Public Sector Internal Audit Standards by 31 st March 2014	Deliver the improvements as per the agreed action plan to ensure compliance with the Internal Audit Standards	Action will not be achieved for 2013-14, conformance will be approx 50% by the end of the financial year. An action plan has been produced to ensure conformance (where reasonable) by the end of March 2015.
Produce the 2012/13 Annual Audit Opinion Report by 30 th June 2013	N/A	Achieved in June 2013
Produce and have approved the 2014/15 Internal Audit Plan by 31 st March 2014	Approval of the 2014/15 Audit Plan by the Audit Committee	Audit Plan report to Audit & Governance Committee – 26 th March 2014

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 26 MARCH 2014

Title of report	INTERNAL AUDIT PLAN 2014-15
Contacts	Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk Senior Auditor 01530 454728 anna.wright@nwleicestershire.gov.uk
Purpose of report	To inform the committee of the proposed Internal Audit Programme of Work for 2014-15
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Council Priorities	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	Not Applicable
Equalities Impact Assessment	Not Applicable
Human Rights	None
Transformational Government	Not Applicable
Consultees	Corporate Leadership Team
Background papers	Public Sector Internal Audit Standards Internal Audit Charter
Recommendations	THAT THE COMMITTEE 1. NOTES THIS REPORT AND COMMENTS AS APPROPRIATE. 2. APPROVES THE 2014-15 INTERNAL AUDIT ANNUAL PLAN.

1. INTRODUCTION

- 1.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays 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.
- 1.2 This is achieved through Internal Audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems are designed and working, with consulting activities available to help to improve those systems and processes where necessary.
- 1.3 Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. Internal Audit endeavours to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.
- 1.4 The Three Lines of Defence Model (Appendix A) is a valuable framework that explains Internal Audit's role in assuring effective management of risk and its position in corporate governance. The first line of defence is formed by managers and staff who are responsible for identifying and managing risks as part of their accountability for achieving objectives. The second line of defence provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are doing it, and helps ensure consistency of definitions and measurement of risk. The third line of defence is provided by internal audit. Its main roles are to ensure that the first two lines are operating effectively and advise how they could be improved.

2. INTERNAL AUDIT PLAN

2.1 Overall Strategy

- 2.1.1 The Internal Audit Charter sets out the Internal Audit activity's purpose, authority and responsibilities. The Charter establishes Internal Audit's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the Audit and Governance Committee, authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.
- 2.1.2 The key aim of the service is to provide an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. This helps the organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.1.3 The key areas of work, supporting the aim of the service and to provide the Chief Audit Executive's annual opinion:

- Risk management and control assurance;
- Assessment of internal control effectiveness and efficiency;
- Supporting the Audit Committee by demonstrating the importance of good governance and ensuring internal control improvements are delivered;
- Supporting organisation change to improve processes and service performance;
- Fostering an awareness of risk and control across the organisation; and
- The ability to respond to urgent events.

2.1.4 The annual audit plan is produced following consultation with key stakeholders and considering risk registers, reports from external agencies (e.g. External Audit) and legislative updates as well as exercising professional judgement. The outcomes from the audit plan underpin the Chief Audit Executive's Annual Opinion on the Council's internal control environment. This opinion supports the Council's Annual Governance Statement.

2.1.5 The planning approach is to prioritise high risk areas of the council's operations. This is balanced by the need to provide assurance over key financial systems that are fundamental to the successful operation of the Council. The plan needs to balance between core assurance that internal control, governance and risk management is functioning effectively and seeking value added activity valued by management.

2.2 Resources Available

2.2.1 The Audit Team to deliver the audit plan at North West Leicestershire District Council consists of a Senior Auditor (0.6 FTE) and an Internal Auditor (0.49 FTE). Table 1 shows a calculation of the available audit days for 2014/15.

Table 1: Resources Available

Total Days	284
<i>Less leave/bank holidays/elections/sickness etc</i>	49
<i>Less training and development</i>	8
Available Days	227
Management/PSIAS/Opinion/Plan/Reporting	32
Admin & Meetings	20
Available Audit Days	175

2.3 Internal Audit Annual Plan 2014-15

2.3.1 Audit planning is undertaken on an annual basis and audit coverage will be based on the following:

- the Council's risk register;
- consultation with the Council's Leadership Team and management;
- consultation with the Audit & Governance Committee; and
- the requirements as agreed with External Audit (KPMG).

2.3.2 Audits are conducted using a risk based approach. This enables the finite resources of the team to be focussed on risk areas that have been identified which may prevent the achievement of the council's aims and objectives.

2.3.3 The areas identified for audit review from the Council's risk register and from consultation with key stakeholders have been assessed to order to prioritise them. The auditable areas have been assessed based on the inherent risk within the area

and the quality of controls in place. The risk assessment is subjective and based on the professional judgement of the Chief Audit Executive, however it does provide a good indication of the higher risk areas.

- 2.3.4 The proposed 2014/15 Annual Audit Plan is shown in Table 2 below and the detailed plan is shown in Appendix B. The plan will be subject to ongoing review to ensure that it remains aligned with the council's objectives and the risks identified by management in the risk registers. Any changes will be reported to the Corporate Leadership Team and the Audit and Governance Committee.

Table 2: 2014-15 Annual Audit Plan

Key Financial Systems	64
Assurance	36
Risk Based Internal Audits	50
Follow up Reviews	10
Advisory	5
Contingency	10
Total Audit Days	175

A contingency has been included in the plan to allow for ad-hoc or fraud investigations. Due to the limited resources available, only 10 days have been included.

Three of the Council's key financial systems (Benefits, Council Tax and NNDR) are provided by the Leicestershire Revenues and Benefits Partnership, and therefore the audits will be undertaken by the internal auditors at Hinckley and Bosworth Borough Council (CW Audit Services).

External expertise will be brought in to undertake the ICT Key Controls and Governance audit. The cost will be met from the department's agency budget.

No consultancy engagements have been agreed for 2014-15, 5 days has been included to provide any advice requested from managers and staff.

The timings shown within the Internal Audit Annual Plan assume that the expected controls will be in place.

There are insufficient resources to undertake an audit of all the areas identified from consultation with key stakeholders and the areas identified from the risk register. These areas are listed in Appendix C. There are a number of high priority areas which will not be reviewed in 2014-15.

2.4 Limitations

- 2.4.1 The matters raised in the audit reports will only be those which are brought to our attention during the internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or all the improvements that may be required. Whilst every care will be taken to ensure that the information contained in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained therein. Our work does not provide absolute assurance that material errors, losses or fraud do not exist.

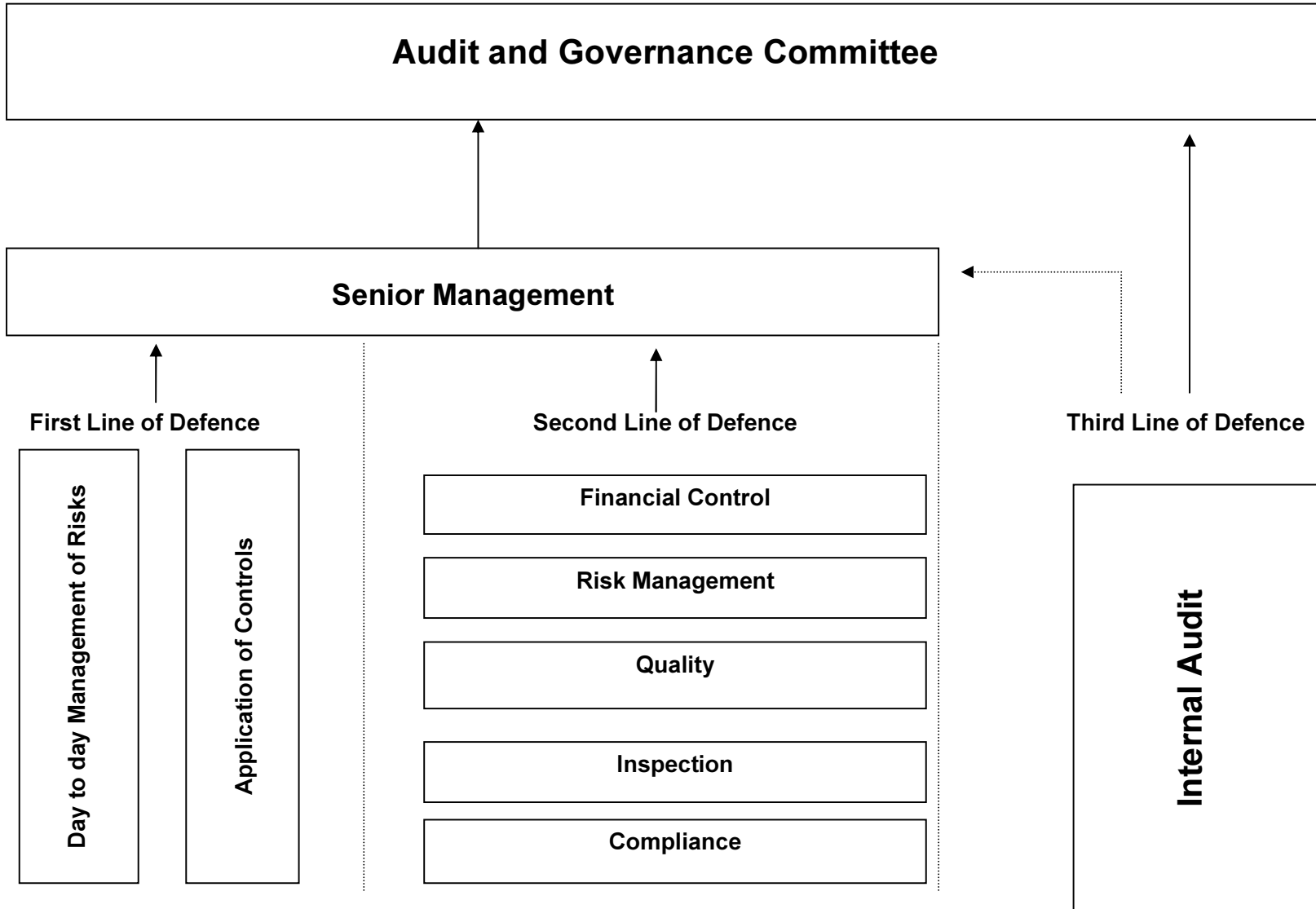
2.5 Review of the Available Resources

- 2.5.1 The key issue for consideration is whether the Internal Audit Plan has the appropriate high level coverage and is focussed on the key areas of risk facing the Council. The Audit and Governance Committee should ensure that there is adequate coverage to provide appropriate assurance. Key considerations:
- Is the risk appetite and resource allocation appropriate given the level of risk the council is currently facing?
 - Are there any high risk areas that are not being covered by the plan?
 - Is there an appropriate balance between assurance and advisory work to ensure the effective utilisation of Internal Audit expertise?
 - Is there sufficient contingency to enable a flexibility of response to changing needs?
- 2.5.2 Management and the Audit and Governance Committee need to accept that not all high level risks identified will be reviewed in 2014-15 due to insufficient resources within the in-house audit team. This will have an impact on the Annual Opinion provided by the Chief Audit Executive as full coverage has not been undertaken.

2.6 Conformance with Standards

- 2.6.1 There are a number of areas of the standards that the audit planning process does not fully conform with and will be developed for the 2015-16 Internal Audit Plan. These areas are:
- The risk based plan takes into account the organisation's assurance framework;
 - The risk based plan incorporates or is linked to a strategic or high level statement about:
 - a) How the internal audit service will be delivered?
 - b) How the internal audit service will be developed in accordance with the internal audit charter?
 - c) How the internal audit service links with the organisation's objectives and priorities?
 - The risk based plan sets out how internal audit's work will identify and address local and national issues and risks;
 - The input of senior management and the board has been considered in the risk assessment process;
 - The risk based plan explains how internal audit's resources have been assessed;
 - The risk based plan includes the approach to using other sources of assurance and any work that may be required to place reliance upon the source; and
 - The CAE had carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance.

Three Lines of Defence



2014-15 Internal Audit Plan

Audit Area	Type	Priority	Auditor	Qtr	Audit Days
Benefits	Key Financial System	High	CW Audit Services	-	-
Business Rates Retention	Risk Based	High	In-house Audit Team	2	6
Capital	Key Financial System	High	In-house Audit Team	2	5
Cash and Bank	Key Financial System	High	In-house Audit Team	2	6
Contracts & Procurement	Risk Based	High	In-house Audit Team	1	6
Council Tax	Key Financial System	High	CW Audit Services	-	-
Creditors	Key Financial System	High	In-house Audit Team	4	8
Debtors	Key Financial System	High	In-house Audit Team	4	8
Decent Homes Improvement Programme	Risk Based	High	In-house Audit Team	2	10
Ethics	Assurance	High	In-house Audit Team	2	8
Fraud	Assurance	High	In-house Audit Team	1	8
Governance	Assurance	High	In-house Audit Team	1	6
Grant Income	Key Financial System	High	In-house Audit Team	4	5
Housing – Other Capital Works	Risk Based	High	In-house Audit Team	1	8
ICT Key Controls	Key Financial System	High	External Contractor	-	-
ICT Security/Back Up	Key Financial System	High	In-house Audit Team	4	2
Information Sharing	Risk Based	High	In-house Audit Team	3	6
IT Governance	Assurance	High	External Contractor	-	-
Main Accounting	Key Financial System	High	In-house Audit Team	4	8
NNDR	Key Financial System	High	CW Audit Services	-	-
Payroll	Key Financial System	High	In-house Audit Team	4	8
Performance Management	Assurance	High	In-house Audit Team	2	6
Planned Housing Maintenance	Risk Based	High	In-house Audit Team	1	8
Planning Policy/Local Plan	Risk Based	High	In-house Audit Team	2	6
Rent Accounting	Key Financial System	High	In-house Audit Team	4	8
Risk Management	Assurance	High	In-house Audit Team	3	8
Treasury Management	Key Financial System	High	In-house Audit Team	3	6
TOTAL					150

2014-15 Internal Audit Plan – Non Coverage

Audit Area	Type	Priority
Partnerships	Risk Based	High
Records Management	Risk Based	High
Project Management	Risk Based	High
Safeguarding	Risk Based	High
Commissioning	Risk Based	High
Data Protection	Risk Based	High
Emergency Planning	Risk Based	High
Responsive Repairs & Voids	Risk Based	High
Coalville Market	Projects	Medium
Improving Customer Experience	Projects	Medium
Mobile Working	Projects	Medium
Waste Transfer Station	Projects	Medium
Business Continuity	Risk Based	Medium
Human Resources	Risk Based	Medium
Vulnerable People	Risk Based	Medium
Anti-Social Behaviour	Risk Based	Medium
CCTV	Risk Based	Medium
Disabled Facilities Grant	Risk Based	Medium
Asset Management (Council Buildings)	Risk Based	Medium
Economic Development	Risk Based	Medium
Asset Management (Housing Stock)	Risk Based	Medium
Planning Enforcement	Risk Based	Medium
S106 Agreements	Risk Based	Medium
Garages	Risk Based	Low
Insurance	Risk Based	Low
Member Allowances	Risk Based	Low
Equalities	Risk Based	Low
Housing Options/Homelessness	Risk Based	Low
Safer & Stronger	Risk Based	Low
Housing Strategy	Risk Based	Low
Leisure Centres	Risk Based	Low
LLPG	Risk Based	Low
Recycling	Risk Based	Low
Older Persons	Risk Based	Low
Affordable Housing	Risk Based	Low
Health & Safety	Risk Based	Low
Inventory	Risk Based	Low
Complaints Management	Risk Based	Low
Land Charges	Risk Based	Low
Environmental Health	Risk Based	Low
Food Safety	Risk Based	Low
Petty Cash/Cash Floats	Risk Based	Low
Air Quality	Risk Based	Low
Planning	Risk Based	Low

Audit Area	Type	Priority
Building Control	Risk Based	Low
Tenant Allocations/Choice Based Lettings	Risk Based	Low
Street Action	Risk Based	Low
Waste Management	Risk Based	Low
Commercial Rents	Risk Based	Low
Licensing	Risk Based	Low
Ashby TIC	Risk Based	Low

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 26 MARCH 2014

Title of report	TREASURY MANAGEMENT ACTIVITY REPORT – APRIL 2013 TO FEBRUARY 2014
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Head of Finance 01530 454520 ray.bowmer@nwleicestershire.gov.uk</p> <p>Finance Team Manager 01530 454707 pritesh.padaniya@nwleicestershire.gov.uk</p>
Purpose of report	To inform Members of the Authority's Treasury Management activity undertaken during the period April 2013 to February 2014.
Council Priorities	Value for Money
Implications:	
Financial/Staff	Interest earned on balances and interest paid on external debt, impact on the resources available to the Authority.
Link to relevant CAT	Could impact upon all Corporate Action Teams.
Risk Management	Borrowing and investment both carry an element of risk. This risk is mitigated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA code of Treasury Management and the retention of Treasury Management Advisors (Arlingclose) to proffer expert advice.
Equalities Impact Assessment	Not applicable
Human Rights	Not applicable
Transformational Government	Not applicable
Consultees	None

Background papers	<p>Treasury Management Strategy Statement 2013/14 and 2014/15 – Council Meeting 26 February 2013 (presented as part of the Budget and Council Tax 2013/14 Report) Budget and Council Tax 2014/15 Report</p> <p>Report to Audit and Governance Committee – 25 September 2013 Treasury Management Activity Report - April to August 2013</p> <p>Report to Audit and Governance Committee – 11 December 2013 Treasury Management Activity Report - April to November 2013</p>
Recommendations	<p>THAT MEMBERS' APPROVE THIS REPORT AND COMMENT AS APPROPRIATE.</p>

1.0 BACKGROUND

- 1.1 The Authority's Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the code"), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and Investment activity.
- 1.2 Treasury Management is defined as "the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.3 The Authority's current Treasury Management Strategy Statement, including the Borrowing Strategy, Debt rescheduling Strategy, Annual Investment Strategy, Prudential Indicators and Annual Minimum Revenue Position Statement for 2013-14 were approved by Council on 26 February 2013.
- 1.4 This is the third in-year report of 2013/14, to inform Members of the Authority's treasury activity and enable scrutiny of activity and performance. The first activity report was presented to the Audit and Governance Committee on 25 September 2013. The second activity report was presented to Audit and Governance Committee on 11 December 2013. These reports supplement the annual Treasury Stewardship Report, which will be presented to this Committee and Cabinet as soon as possible after the end of the financial year.

2.0 SCOPE

- 2.1 This report:
 - a) Has been prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
 - b) Presents details of capital financing, borrowing, debt rescheduling and investment transactions;
 - c) Gives details of the treasury management transactions for the period April to February 2014;
 - d) Confirms compliance with treasury limits and Prudential Indicators.

3.0 THE U.K. ECONOMY AND EVENTS

- The UK economy still shows signs of improvement, with consumer spending boosting growth. GDP was +0.4% for the first quarter of 2013, +0.7% for the second quarter and +0.8% for the third quarter. The estimate of GDP for the fourth quarter of 2013 is +0.7%.
- Manufacturing output increased by 0.7% between quarter 3 and quarter 4 2013, revised down 0.2% from the previous estimate.
- Construction output rose by 0.2% in quarter 4 2013, revised up from the previously estimated -0.3% and follows a 2.6% increase in the previous quarter.
- Service industries grew by 0.8% in quarter 4 2013. The output in service industries has increased every quarter compared with the same quarter a year ago since quarter 2 2010. Service industries have now surpassed its pre-downturn peak by 1.3%, having grown by 2.7% between quarter 4 2012 and quarter 4 2013.
- Annual CPI was 2% in December.
- There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively.

4.0 THE AUTHORITY'S TREASURY POSITION

4.1 The Authority's gross / net debt and investment positions are as follows:

DEBT	Balance at 01/4/2013 £m	%	Maturing loans £m	Premature redemptions £m	New Borrowing £m	Balance at 02/03/2014 £m	%
Long-term fixed rate	£88.510m	100	£0.491m	£0.000m	£0.000m	£88.019m	100
Long-term variable rate	£0.000m	0	£0.000m	£0.000m	£0.000m	£0.000m	0
Temporary Borrowing	£0.000m	0	£0.000m	£0.000m	£0.000m	£0.000m	0
Total borrowing	£88.510m	100	£0.491m	£0.000m	£0.000m	£88.019m	100
Other long-term liabilities	£0.149m		£0.000m	£0.000m	£0.000m	£0.149m	
TOTAL EXTERNAL DEBT	£88.659m		£0.491m	£0.000m	£0.000m	£88.168m	
INVESTMENTS	Balance at 01/4/2013 £m	%	Maturities £m	Sales £m	New Investments £m	Balance at 02/03/2014 £m	%
Internally Managed	£14.053m	100	£131.073m	£0.000m	£141.334m	£24.314m	100
Investments with maturities up to 1 year,	£14.053m	100	£131.073m	£0.000m	£141.334m	£24.314m	100
Investments with maturities in excess of 1 year	£0.000m	0	£0.000m	£0.000m	£0.000m	£0.000m	0
Externally Managed Investments	£0.000m	0	£0.000m	£0.000m	£0.000m	£0.000m	0
TOTAL INVESTMENTS	£14.053m		£131.073m	£0.000m	£141.334m	£24.314m	
NET DEBT	£74.606m					£63.854m	

4.2 The investment position varies throughout the year as it is dependent upon cash flow. Examples of significant areas that can impact on cash flow are collection of Council Tax, Business Rates, grants, capital receipts, payments to other precepting authorities or central government and interest on treasury activity.

4.3 In the period April 2013 to February 2014, the capacity for investment has currently increased by £10.3m. The volatility of balances is normal throughout the year and a number of factors contribute to this:

- a) The Authority traditionally benefits from the receipt of Council Tax and Business Rates during the first ten months of the financial year;
- b) Revenue expenditure is more evenly weighted throughout the financial year;
- c) Capital expenditure is more heavily weighted towards the latter part of the financial year due to the time required to schedule programmes of work or award contracts.
- d) The patterns of income and expenditure are reflected in the Authority's cash flow projections. This is monitored and revised daily.

4.4 The current increased capacity for investment is expected to decrease in March 2014 and this is in line with the Authority's experience.

5.0 BORROWING ACTIVITY

5.1 The Authority's Borrowing Strategy 2013/14, approved by Council on 26 February 2013, incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Authority's Prudential Indicators.

5.2 The Authority's revised estimated borrowing requirement for the current financial year is £1.202m. In the three subsequent financial years this is estimated to be £1.24m in 2014/15, £0.749m in 2015/16 and £0.908m in 2016/17. This is as reported in the Budget and Council Tax report to Council on 25 February 2014.

5.3 The Authority has not undertaken any new long-term borrowing during the period.

5.4 The Authority's cash flow remained positive during the period. The Authority did not require any temporary loans during the period.

6.0 DEBT RESCHEDULING ACTIVITY

6.1 The Authority's Debt Rescheduling Strategy 2013/14, which was approved by Council on 26 February 2013, establishes a flexible approach where the rationale for rescheduling could be one or more of the following:

- Savings in interest costs with minimal risk.
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

6.2 No opportunities for debt rescheduling were identified which conformed to the above rationale. Accordingly, the Authority has undertaken no debt rescheduling activity during the period.

6.3 The Authority's portfolio of fourteen loans - eight PWLB loans and four market loans - will continue to be monitored for debt rescheduling opportunities that comply with the Authority's Policy and rationale.

7.0 INVESTMENT ACTIVITY

7.1 The Authority's Investment Policy and Strategy 2013/14, which was approved by Council on 26 February 2013, established that the major policy objective is to invest its surplus funds prudently.

7.2 The Authority's investment priorities are:

- security of the invested capital;
- sufficient liquidity to permit investments; and,
- optimum yield which is commensurate with security and liquidity.

7.3 The counterparties that the Authority currently utilise all meet the criteria set out in the Treasury Management Strategy Statement 2013/14 and are monitored by the Authority's Treasury Management Advisors. The minimum long term rating for counterparties is A- or equivalent. The counterparties and amounts currently invested are shown below:

Counterparty	£m
Goldman Sachs MMF	1.4
CCLA Investment Management Ltd MMF	0.5
HSBC	1.4
Lloyds Banking Group / Bank of Scotland	3.2
Royal Bank of Scotland	3.3
Nationwide Building Society	2.0
Santander	3.0
Close Brothers Ltd	3.0
Handelsbanken	3.6
Black Rock MMF	1.9
RBS MMF	1.0
Total Invested	24.3

7.4 The average rate of return on the Authority's investment balances during the period was 0.496%. For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) for the period to the end of February 2014 was 0.36%. The average 7 day London Interbank Offered Rate (LIBOR) for the period to the end of February 2014 was 0.48%. The comparison of rates of return against a benchmark is less relevant when set against the ultimate priority of Security as set out in the Authority's Treasury Management Strategy Statement 2013/14.

7.5 There were 141 investments made during the period, totalling £131.1m. The average balance held for the period was £20.6m.

7.6 Short term interest rates remain low resulting in a lengthening of investment periods, where cash-flow permits, in order to lock in higher rates of return. Largely, the investments were of short term duration, typically overnight investments, as the Authority and its advisors remain on a state of alert for signs of credit or market distress that may adversely affect the Authority. The fixed term investment of £2m, highlighted in the second in year activity report, matured during the period. Two further fixed term investments of £2m and £3m were taken out during the period.

7.7 The Authority has budgeted to achieve £68,000 of income from its investment activity in 2013/14. Investment activity from April to February 2014 has achieved £102,807 in interest. The current forecast that is estimated to be achieved is £111,000. Of this total, an element is applied to balances held on external income. This external income represents balances from S106 contributions that have not yet been spent. The estimated amount forecast to be applied is approximately £14,000, subject to balances remaining at the end of the financial year.

- 7.8 The remaining balance of interest (£97,000) received on investment income is budgeted to be apportioned between General Fund and the Housing Revenue Account based on an estimated cash flow position. For 2013/14, the budgeted investment income is apportioned as follows: £43,000 General Fund and £25,000 Housing Revenue Account. Any over or under achievement of interest is apportioned on this basis and the current forecast is anticipated to be £61,300 General Fund and £35,700 HRA.
- 7.9 All investments made during the period complied with the Authority's agreed Annual Investment Strategy, Treasury Management Practices, Prudential Indicators and prescribed limits.

8.0 SUMMARY

- 8.1 For the period April 2013 to February 2014, the Authority can confirm that it has complied with its Prudential Indicators, which were approved on 26 February 2013 as part of the Authority's Treasury Management Strategy Statement.
- 8.2 In compliance with the requirements of the CIPFA Code of Practice, this report provides members with a summary report of the Treasury Management activity for the period April 2013 to February 2014. No indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 8.3 The Authority can confirm that during the period April 2013 to February 2014, it has complied with its Treasury Management Strategy Statement, policies and Treasury Management Practices.

**AUDIT AND GOVERNANCE COMMITTEE
WORK PLAN 2013 - 14**

Issue	Details	Meeting at which will be reported
Standards and Ethics – Quarter 3 Report	To receive a quarterly report on the ethical indicators and local investigations – Quarter 3.	26 March 2014
Member Conduct Annual Report	To consider the annual report and recommend Council endorses it.	26 March 2014
External Audit Plan	To receive the External Audit Plan.	26 March 2014
Internal Audit Plan	To consider the Internal Audit Plan.	26 March 2014
Internal Audit Progress Report	To receive an update on the progress of Internal Audit.	26 March 2014
Treasury Management Activity	To receive the Treasury Management Activity Report.	26 March 2014
Appointment of Parish Representatives	To formally appoint the Parish Representatives to the Committee following receipt of nominations.	26 March 2014
Standards and Ethics – Quarter 4 Report	To receive a quarterly report on the ethical indicators and local investigations – Quarter 4.	25 June 2014
Annual Governance Statement	To consider the Annual Governance Statement.	25 June 2014
Review of the Effectiveness of Internal Audit	To consider the review of the effectiveness of Internal Audit.	25 June 2013
Internal Audit Opinion Report	To receive the Internal Audit Opinion Report.	25 June 2014
Internal Audit Progress Report	To receive an update on the progress of Internal Audit.	25 June 2014
Governance Policies Annual Review	To seek approval of the Council's Governance Policies.	25 June 2014
Ombudsman Letter	To receive the Annual Ombudsman Letter.	25 June 2014

