

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 21 JUNE 2017

Title of report	INTERNAL AUDIT ANNUAL REPORT 2016/17
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Purpose of report	<p>To present the annual internal audit opinion on the overall adequacy and efficiency of the Council's framework of governance, risk management and control.</p> <p>This is required by the Public Sector Internal Audit Standards and should be used to inform the Annual Governance Statement.</p>
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Strategic aims	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	A negative internal audit opinion would cast doubt on the Council's governance arrangements and could impact on the audit of the Statement of Accounts.
Equalities Impact Assessment	N/A
Human Rights	N/A
Transformational Government	No direct implications.
Consultees	<p>Director of Resources</p> <p>Head of Transformation</p>

	Financial Planning Manager (Deputy Section 151)
Background papers	Internal Audit Progress Reports during 2016/17 Public Sector Internal Audit Standards
Recommendations	THAT THE COMMITTEE NOTES THIS REPORT AND COMMENTS AS APPROPRIATE.

1. INTRODUCTION

- 1.1 This is the annual report of the Chief Audit Executive (Senior Auditor) as required by the Public Sector Internal Audit Standards (PSIAS). It covers the period 1 April 2016 to 31 March 2017.
- 1.2 This report includes the Senior Auditor's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 1.3 This report also includes:
- A summary of internal audit work carried out during 2016/17 which supports the opinion.
 - Issues relevant to the preparation of the Annual Governance Statement.
 - Internal Audit's Quality Assurance and Improvement Programme (QAIP).
 - A statement on conformance with the Public Sector Internal Audit Standards.

2. CHIEF AUDIT EXECUTIVE (SENIOR AUDITOR) OPINION 2016/17

- 2.1 I am satisfied that sufficient internal audit work has been undertaken to allow me to give an opinion on the adequacy and effectiveness of the framework of governance, risk management and control. In giving this opinion it should be noted that assurance cannot be absolute and the most that Internal Audit can provide is reasonable assurance that there are no major weaknesses in the system of internal control.
- 2.2 For the 12 months ended 31 March 2017, I have formed the opinion that the Council's overall internal control arrangements are a **Grade 2**. In line with our Internal Audit opinion grade definitions, this means that I consider that the internal control arrangements require improvement in some areas.
- 2.3 My opinion is based on the following:
- All internal audit work undertaken during the year.
 - Assurance provided by the auditors of the Leicestershire Revenues and Benefits Partnership.
 - Follow up audit work in respect of audit recommendations.
 - My knowledge of the Council's governance and risk management structure and processes.

3. SUMMARY OF INTERNAL AUDIT WORK DURING 2016/17

- 3.1 The risk based internal audit plan for 2016/17 was presented and approved by the Audit and Governance Committee on 23rd March 2016. The plan was developed to provide assurance on the adequacy and effectiveness of internal controls across a range of financial and organisational areas that were identified as part of the risk based planning process. Progress against the plan has been reported to Audit and Governance Committee throughout the year as part of the quarterly Internal Audit progress reports.
- 3.2 A summary of the audit opinions given in 2016/17 by the in-house team is detailed in Table 1 below. The opinion for individual audits is included in Appendix A for information.

Table 1

Audit Opinion	Number
Grade 1 – Internal controls are adequate in all important aspects	7
Grade 2 – Internal controls require improvement in some areas	6
Grade 3 – Internal controls require significant improvement	0
Grade 4 – Internal controls are inadequate in all important aspects	0
Total	13

- 3.3 Three of the Council's key financial systems (Benefits, Business Rates and Council Tax) are provided by the Leicestershire Revenues and Benefits Partnership. For 2016/17 the internal audit service at the Partnership was provided by PwC. They issued a 'high' risk report setting out their findings at the Leicestershire Partnership Revenues and Benefits Joint Committee held on 26th January 2017. I have reviewed their report which included two main areas of concern:
- Weak security arrangements around access to the online BACS payment system.
 - The lack of recovery of council tax overpayments where the individual is no longer in receipt of council tax support or housing benefits.

The Partnership reported that the weak security arrangements were addressed immediately and that, following a review of the overpayments process, new weekly procedures were introduced from January 2017. There is a dedicated team who work on keeping all overpayments activity up to date. The Partnership now feels it is in a much better position to tackle this in the future.

- 3.4 An audit of ICT Key Controls has been undertaken by a specialist computer auditor employed by Leicestershire County Council (LCC). They used our opinion model and issued a Grade 2 report with 14 medium priority recommendations.
- 3.5 Internal Audit follow up progress against recommendations in line with the timescales agreed at the time of issuing reports. The Audit and Governance Committee is updated on the Council's progress against the recommendations as part of the quarterly Internal Audit progress reports, as well as giving details of ongoing or overdue recommendations. A summary of the recommendation tracking results for 2016/17 is included at Appendix B.

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

- 4.1 The in-house Internal Audit team have not issued any grade 3 or grade 4 audit reports during 2016/17 so far. A number of high priority recommendations have been made however they relate to specific areas and I do not consider it necessary to include them in the Annual Governance Statement. The Section 151 Officer and/or Deputy receive all Internal Audit reports issued therefore they are also able to review them and make their own assessment when completing the Statement should they be of a different opinion. They should also consider whether they want to include the issues identified at the Leicestershire Revenues and Benefits Partnership detailed at paragraph 3.3.

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

- 5.1 The Public Sector Internal Audit Standards require the QAIP to include internal and external assessments.
- 5.2 The internal assessments applicable to 2016/17 comprise of the following:
- The Senior Auditor planned all audit engagements and carried out documented reviews of working papers and draft reports prior to issue.
 - Monthly performance review meetings which were attended by the Senior Auditor and the Head of Transformation/Director of Resources.
 - Quarterly customer satisfaction surveys were sent out to all Heads of Service and Team Managers who had an audit in their service area. The results of which are discussed at the monthly performance review meetings and included in the quarterly progress reports to Audit and Governance Committee.
 - Quarterly progress reports to Audit and Governance Committee which include monitoring of activity and performance.
 - April 2016 review of revised Public Sector Internal Audit Standards to ensure ongoing conformance.
- 5.3 The PSIAS require external assessments to be conducted at least once every five years. Our external assessment was completed in April 2015 and the full report was presented to the Audit and Governance Committee meeting on 24th June 2015.

6. CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 6.1 The external assessment conducted in April 2015 concluded that there were no significant gaps in compliance. The Standards were updated in April 2016 and I carried out a review against the additions to the Standards to ensure we remained compliant from April 2016. Details of the review were reported in the Internal Audit Annual Report 2015/16. The Standards have been updated again, coming into effect from 1st April 2017. I have carried out another review (see Appendix C) to establish that no further changes are required.
- 6.2 I can confirm that during 2016/17 we conformed to the Public Sector Internal Audit Standards and will continue to do so during 2017/18.

Appendix A

RESULTS OF INDIVIDUAL AUDIT ASSIGNMENTS 2016/17

Audit Report	Grade	Number of Recommendations					Date reported to Audit and Governance Committee
		Critical*	High	Medium	Low	Advisory	
1 – Enterprising NWL Grants	2	N/A	3	3	-	2	September 2016
2 – Refuse and Recycling	1	N/A	-	1	1	-	September 2016
3 – Leicestershire Welfare Provision	1	N/A	-	1	-	-	September 2016
4 – Treasury Management	1	N/A	-	-	-	-	September 2016
5 – Housing Management	2	-	2	3	-	-	March 2017
6 – Asset Management System	2	-	2	1	-	-	March 2017
7 – Main Accounting System	1	-	-	-	-	-	December 2016
8 – Car Parking and Enforcement	1	-	-	-	1	1	March 2017
9 – Rent Accounting	2	-	1	3	-	-	March 2017
10 – Creditors	1	-	-	1	1	-	June 2017
11 - Review of Compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption	2	-	2	4	2	-	June 2017
12 – Cash and Bank	1	-	-	-	-	-	June 2017
13 – Disabled Facilities Grants	2	-	2	3	-	-	
14 – S106	N/A						This audit was at the management review stage at the time of writing the report.
15 – Debtors	N/A						This audit was in progress at the time of writing the report.

* new category of recommendation 'critical' added from 21st September 2017

Members are able to view copies of all Internal Audit reports in full on iNet.

Appendix B

SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS 2016/17

Recommendation Priority	Recommendations Made	Recommendations Not Agreed	Recommendations Implemented	Recommendations Outstanding (Not Yet Due or Original Target Date Extended)	Recommendations Overdue/Not Implemented
Critical	-	-	-	-	-
High	12	-	11	1	-
Medium*	34	-	18	16	-
Low	5	-	3	2	-
Total	51	-	32	19	-

*This includes the ICT Key Controls Audit recommendations.

Level	Definition
Critical	Recommendations which are of a very serious nature and could have a critical impact on the Council, for example to address a breach in law or regulation that could result in material fines/consequences.
High	Recommendations which are fundamental to the system and require urgent attention to avoid exposure to significant risks.
Medium	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Low	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
Advisory	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

PUBLIC SECTOR INTERNAL AUDIT STANDARDS APRIL 2017 REVIEW

The underlined text represents the additions.

Area/Standard	Requirement/ Interpretation	Content	Senior Auditor Comments
1000 Purpose, Authority and Responsibility	Requirement	<p>The internal audit charter must also:</p> <ul style="list-style-type: none"> define the terms 'board' and 'senior management' for the purposes of internal audit activity; cover the arrangements for appropriate resourcing¹; define the role of internal audit in any fraud-related work; and <u>describe safeguards to limit independence or objectivity</u> if internal audit <u>or the chief audit executive</u> undertakes non-audit activities¹. <p><u>1 Footnote: These requirements should be read in conjunction with Standards 2030 Resource Management and 1112 Chief Audit Executive Roles Beyond Internal Auditing.</u></p>	No action required as Section 8 of the Internal Audit Charter – Independence and Objectivity already describes our safeguards.
<u>1112 Chief Audit Executive Roles Beyond Internal Auditing</u>	<u>Interpretation</u>	<u>In the UK public sector, chief audit executives would not be expected to undertake roles with responsibility for core management controls or functions.</u>	Not applicable at this time as the Chief Audit Executive does not have any additional roles or responsibilities outside of internal audit. Should any arise they would be covered by the Internal Audit Charter Section 8.
1322 Disclosure of Non-conformance	Requirement	<u>Such non-conformances must be highlighted by the chief audit executive to</u> be considered for inclusion in the governance statement.	No applicable 'non-conformances' at this time – the annual opinion report includes a statement on conformance.
2050 Coordination			No action required.

2450 Overall Opinions	Requirement	<p>The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.</p> <p>The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.</p> <p>The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.</p>	No action required as this statement is included in the annual report already.
International Professional Practices Framework	Interpretation	Only the Mission and the mandatory elements apply for the purposes of the Public Sector Internal Audit Standards.	No action required as the Internal Audit Charter already includes the Mission.