



## **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.

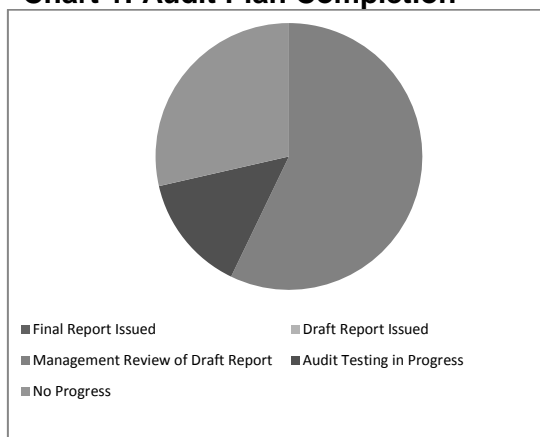
Internal Auditors must maintain an unbiased attitude that allows them to performance their engagements in such a manner that they believe in their work product and that no quality compromises are made.

- 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.

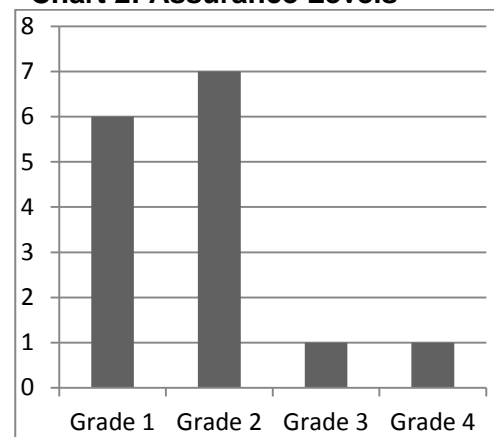
## 6 Internal Audit Plan Update

- 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.

1. 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 20<sup>th</sup> January – 28<sup>th</sup> 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 |   |
| <b>Main Systems</b>     |              |             |   |                 |                 |   |   |   |   |
| 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         | -               | - | - | - |   |
| <b>Non Main Systems</b> |              |             |   |                 |                 |   |   |   |   |
| 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 &<br>Team Manager                  | Assurance<br>Level | Areas for Improvement | Recommendations |   |   |   |
|-------------------------------------|------------------|--|--------------------|-----------------------|-----------------|---|---|---|
|                                     |                  |  |                    |                       | H               | M | L | A |
| 2013/14 – 9<br>Capital Accounting   | Corporate        | Head of Finance<br>Financial Planning Team Manager | Grade 1            | None required.        | -               | - | - | - |
| 2013/14 - 11<br>Treasury Management | Corporate        | Head of Finance<br>Financial Planning Team Manager | Grade 1            | None required.        | -               | - | - | - |

## Recommendations Tracker – Outstanding High &amp; Medium Recommendations

| Report                 |                     | Recommendation |  | Rating | Officer Responsible  | Target Date  | Status  |
|------------------------|---------------------|----------------|--|--------|--|--|---|
| <b>2012/13 Reports</b> |                     |                |  |        |  |  |   |
| 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<br>Revised Date:<br>March 2014                                    | OVERDUE<br>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<br>The debtors recovery module is being installed on the 5 <sup>th</sup> March by the software providers.     |
|                        |                     | 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<br>Revised Date:<br>March 2014                                | OVERDUE<br>In Progress<br>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<br>Revised date:<br>October 2013<br>March 2014                    | OVERDUE<br>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<br>Revised date:<br>September 2013<br>December 2013<br>March 2014 | OVERDUE<br>No Progress  |
| <b>2013/14 Reports</b> |                     |                |  |        |  |  |   |
| 1                      | Development Control | 1              | The Development Control procedure notes should be updated to reflect current working practices.  | Medium | Planning & Development Team Manager                        | June 2013<br>Revised Date:<br>September 2013                                 | OVERDUE<br>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<br><br>Revised Date:<br>March 2014 | OVERDUE<br><br>In Progress<br><br>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<br><br>Revised Date:<br>July 2014    | OVERDUE<br><br>In Progress<br><br>The strategy has been updated, but requires further review and approval.                            |
|        |                 | 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<br><br>Revised Date:<br>July 2014    | OVERDUE<br><br>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<br><br>Revised Date:<br>April 2014   | OVERDUE<br><br>In Progress<br><br>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%                    |   |

#### 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 <sup>th</sup> March 2014   |
| To be compliant with the Public Sector Internal Audit Standards by 31 <sup>st</sup> 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 <sup>th</sup> June 2013                              | N/A   | Achieved in June 2013   |
| Produce and have approved the 2014/15 Internal Audit Plan by 31 <sup>st</sup> March 2014                   | Approval of the 2014/15 Audit Plan by the Audit Committee   | Audit Plan report to Audit & Governance Committee – 26 <sup>th</sup> March 2014   |