



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council

Internal Audit Progress Report October 2017

1. Introduction

- 1.1 The assurances received through the Internal Audit programme are 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 2017/18 Internal Audit Plan up to 31st October 2017 and inform the Audit and Governance Committee of any significant control failings that have been identified through Internal Audit work.

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 play 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.
- 2.2 Internal Audit provide a combination of assurance and consulting/advisory 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 2015, the Internal Audit Charter and the Council's Constitution. The Financial Regulations, which are part of the Constitution, set 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 perform 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.

6 Internal Audit Team Update

- 6.1 The Audit Manager started her maternity leave on 6th November. There were difficulties recruiting to this post but a candidate has now been identified and is due to start early in the New Year. She is a qualified Auditor and has worked at NWLDC in the past as well as other public and private organisations.

7 Internal Audit Plan Update

- 7.1 A progress report against the 2017/18 Internal Audit Plan is documented in Appendix A. The plan needs to be flexible in order to respond to current risks and resources. There have been several changes to the plan approved in March 2017 and details are documented in the 'comments' column in Appendix A.
- 7.2 Three final reports have been issued since the last update report, two are at the report drafting stage and two are in progress. The executive summaries for the final reports issued are included in Appendix B. Our work has not identified any significant control weaknesses to draw attention to at this point in time.

8 Internal Audit Recommendations

- 8.1 Internal Audit monitors and follows up all critical, high and medium priority recommendations. All outstanding recommendations are included in Appendix C for information. Recommendations that have been made and implemented in the reporting period are also included for information.
- 8.2 At the meeting of the Audit and Governance Committee on 27 September 2017 it was minuted that:

"In response to a request from Councillor R Ashman, the Head of Planning and Regeneration agreed to provide an update at the next meeting to highlight any areas of concern regarding unspent S106 money."

Below is the update from the Head of Planning and Regeneration.

'An initial review of existing S106 agreements where funding has been received but has not been spent, has been undertaken and from this it appears that there are 11 agreements where this is the case. Of these 6 relate to healthcare, 1 to Community Safety and 4 in respect of recreation/open space. The issue of healthcare funds not being spent was previously considered by the Policy and Development Group at its meeting on 6 January 2016. Council officers now meet regularly with a representative of the Clinical Commissioning Group and they are aware of these unspent funds. In

terms of the other unspent monies the respective organisations have been contacted to ascertain what progress, if any, there has been as in some cases it would appear that some of the monies have been spent. We are also developing processes and procedures to ensure that this situation can be avoided in the future'.

9 Internal Audit Performance Indicators

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

2017/18 AUDIT PLAN PROGRESS TO 31 OCTOBER 2017

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
Housing											
Choice Based Letting	Risk Based	5	-	Removed from plan							New system will not be implemented until much later in the year therefore include on 18/19 audit plan.
Gas/Solid Fuel Servicing and Maintenance	Risk Based	10		Scheduled for Q3							
Assistive Technology and Support Service	Risk Based	4	0.5	In progress							
Housing Repairs	Risk Based	10		Scheduled for Q4							
New Council Houses	Risk Based	5		Scheduled for Q3							
Rent Accounting	Risk Based	6	1.5	In progress							
Right to Buy (1)	Risk Based	5	8	Final Report Issued	Grade 2	-	1	3	3	-	
Housing ICT Review	Advisory	5		As required							
Housing Repairs	Advisory	10	1	As required							
Community Services											
Grounds Maintenance	Risk Based	6		Scheduled for Q3/Q4							
Hood Park Leisure Centre	Risk Based	6	6	In progress							
Hermitage Leisure Centre	Risk Based	6	8.8	In progress							
Planning Enforcement	Risk Based	6	-	Removed from plan							New policy still to go to Cabinet therefore include this audit on 18/19 plan.
New Car Parking Machines	Advisory	2									
Disabled Facilities Grant Determination	Grant	3	-	Removed from plan							This work is no longer required as funding comes through LCC who sign off the determination.
Planning											

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
Development Control (3)	Risk Based	6	8	Final report issued	Grade 2	-	3	2	-	-	
Economic Development											
Cultural Services	Risk Based	4	-	Removed from Plan							The Service is currently going through an internal review therefore will consider the need for this audit in 2018/19.
Coalville Project	Advisory	2									
Business Focus Database	Advisory	1	0.5	Completed	N/A – advisory						
Finance											
ICT Assets (2)	Risk Based	5	13.6	Final report issued	Grade 2	-	3	5	-	-	Planned days exceeded due to wider scope than originally planned and extra time required to resolve queries during the audit as not all necessary information was provided initially.
Key Financial Systems	Risk Based	30	19	HR and Payroll Audit (6) final report issued	Grade 2	-	5	12	1	-	High number of recommendations for a Grade 2 audit however the audit scope was wide to reflect the new HR and Payroll system from April 2017 and the majority of controls were found to be operating adequately.
Finance Service/Systems Review	Advisory	4	2.5	As required							

KEY

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
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.

Appendix B

EXECUTIVE SUMMARY OF IN HOUSE INTERNAL AUDIT FINAL REPORTS ISSUED 01 SEPTEMBER 2017 – 31 OCTOBER 2017

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Main Areas for Improvement	Recommendations				
					C	H	M	L	A
2017/18 Audits									
2 – ICT Assets	Corporate Portfolio Holder	Head of Transformation	Grade 2	Annual checks of ICT assets.	-	3	5	-	-
		ICT Team Manager		Procedures for assigning / re-assigning and issue / return of ICT assets.					
				Disposal of ICT assets.					
3 – Development Control	Regeneration and Planning Portfolio Holder	Head of Planning and Regeneration	Grade 2	Updating of procedures notes for day to day activities associated with the process.	-	3	2	-	-
		Planning and Development Team Manager		Refunds – authorisation of and methods of payment used for refunds.					
				Performance reporting.					
6 – HR and Payroll	Corporate Portfolio Holder	Chief Executive	Grade 2	Ensuring that pension deductions for all new staff start immediately if appropriate.	-	5	12	1	-
		HR Manager and Financial Services Team Manager		Processing leavers and updating the leaver checklist.					
				Working with the system provider to ensure that unpaid leave and paternity leave are calculated and applied correctly.					
				Formalising and documenting the approach to engaging consultants.					

See Appendix A for Key.

RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
2016/17 Reports							
11	Review of Compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption	7	A review should be undertaken to confirm that the policy framework is satisfactory and policies are up to date. As part of this the need for a cyber security policy should be considered.	Medium	Interim Head of Transformation	26.05.17	A review has taken place with plans for a cyber security policy but this has not yet been produced. A meeting was held with team managers in October 2017 to establish existing controls and areas for improvement, including policy framework, with plans to set out in a strategy which can then be reported against to Audit and Governance Committee.
NA	Key ICT Controls Audit	3	ICT Management should document the new DR arrangements once they have been established e.g. into a formal DR Policy/Plan. Once the new DR arrangements have been established regular DR tests should be planned and undertaken.	Medium	IT Manager	September 2017	The testing will be carried out once the full switch over to the data centre happens in November therefore Internal Audit will follow up again in December 2017.
		9	Consideration should be given to reviewing the password configurations for key IT applications to ensure that they are reasonable. Where a decision is made to allow for more relaxed password requirements any associated risks should be formally approved by Senior Management.	Medium	IT Manager, in conjunction with the Systems Administrators	July 2017	This work is in progress as requires input from system administrators from across the authority and senior management approval of any relaxation in policy. Internal Audit will follow up again in December 2017.
14	S106	2	The current guidance notes require further improvement to clearly show what should	Medium	Planning Policy Team Manager	August 2017	Partially implemented – some procedure notes have been produced however there are

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
			<p>happen at each stage of the process and the individual / team responsible. There are a number of areas which would also benefit from having written procedures, as a minimum these should cover:</p> <ul style="list-style-type: none"> • Registering / recording of S106 agreements. • Monitoring of triggers and action points. • Raising invoices and monitoring of payment. • Grant applications and approval process. • Action to be taken when obligations not met. 				still some that need to be drafted. Internal Audit will follow up in January 2018.
		5	The details from the S106 agreement entered onto the S106 database should be sufficient to enable effective monitoring of actions and triggers associated with the agreements.	High	Planning Policy Team Manager	September 2017	Progress has been made and records of agreements now held. Further work required on the database to enable effective monitoring to take place. Internal Audit will follow up in February 2018.
		9	Where other departments retain records of S106 agreements for their own purposes regular liaison meetings should be held with the department and Planning Policy to ensure that information held by all parties agrees.	Medium	Planning Policy Team Manager	October 2017	It has not been possible to achieve the target date. Internal Audit will follow up in February 2018.
		15	Records should be maintained which show the intended recipient of S106 funding, amount due, purpose of funding and date which the funding is to be spent by. There should be a facility whereby the recipient is prompted of funding available on a periodic basis (this information should have been agreed first with the other Council departments that also hold information).	Medium	Planning Policy Team Manager	August 2017	This is being worked on, the original target date was not realistic in terms of the amount of work involved. Internal Audit will follow up in February 2018.

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
		17	Completed funding drawdown applications should be numbered and a record kept of their location should reference to these be required in the future.	Medium	Planning Policy Team Manager	July 2017	This is being worked on but the original target date has not been met. Internal Audit will follow up in February 2018.
2017/18 Reports							
1	Right to Buy	1	A Tenancy Fraud Policy should be drawn up which covers all types of Housing Tenancy Fraud (not just Right to Buy). The policy should clearly state the action to be taken should a fraud be identified.	High	Housing Management Team Manager	1st November 2017 (policy at draft stage) and final approved by 1st January 2018	Audit will follow up in December 2017.
		2	A risk assessment should be undertaken to determine the level of risk associated with Tenancy Fraud.	Medium	Housing Management Team Manager	1st November 2017	Audit will follow up in December 2017.
2	ICT Assets	1	ICT procedures should be updated to include the process to be followed where ICT equipment is provided to services or individuals. Procedures should also cover processes for returning equipment to ICT or re-assigning equipment to other users.	Medium	ICT Manager	December 2017	Internal Audit follow up January 2018
		2	Enquires should be made as to whether there is a facility within the ICT Asset Register which would confirm the date that the status of an asset has been changed and by whom.	Medium	ICT Service Support Manager	Already Implemented	Already implemented
		3	Those items of ICT equipment which could not be located during the audit should be tracked down and the asset register updated accordingly (asset tag 1402,1653 and 1778)	Medium	ICT Manager	November 2017	Internal Audit follow up December 2017
		4	Items of ICT equipment recorded on the asset register with no specific user should be regularly checked by ICT staff and any change in location / re-assignment be updated accordingly.	Medium	ICT Manager	December 2017	Internal Audit follow up January 2018
		5	ICT should provide all services with details of ICT Assets which are currently assigned	High	ICT Manager	January 2018	Internal Audit follow up

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
			to them (as per the ICT Asset Register) in order that each service can confirm the ICT assets which are currently held by them and their location. Evidence that the ICT Asset inventory check has been undertaken and results of this check should be reported to ICT. Inventory checks should then be completed on at least an annual basis.				February 2018
		6	The Asset Management Group should develop a Minor Asset Disposal Policy to define the requirements when disposing of ICT and other minor assets. This should include any authorisation required prior to disposal of the asset.	High	Interim Head of Transformation	January 2018	Internal Audit follow up February 2018
		7	The report provided which details ICT equipment which has been disposed of should be checked to the ICT list of equipment sent for disposal to confirm that these agree. Where there are discrepancies these should be followed up with the company used. The method of disposal should also be checked to confirm that this is acceptable and that certificates have been received confirming this. All checks and findings should be evidenced.	High	ICT Manager	December 2017	Internal Audit follow up January 2018
		8	The 'status' of equipment that has been disposed of should be accurately reflected as 'recycled' in the ICT asset register.	Medium	ICT Manager	November 2017	Internal Audit follow up December 2017
3	Development Control	1	Development Control procedure notes should be updated to reflect current practice.	Medium	Planning Support Team Leader	December 2017	Internal Audit follow up January 2018
		2	Refunds should be authorised in line with authorisation limits. Consideration should be given as to whether the Planning Support Team Leader's current authorisation limit is adequate.	High	Planning & Development Team Manager	Immediately	Internal Audit follow up December 2017
		3	As refunds should be made to the source where the payment originated the Planning	High	Planning & Development Team	November 2017	Internal Audit follow up December 2017

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
			Support Team Leader should contact the Senior Exchequer Services Officer to discuss how best to ensure this happens in the future. Once agreed, procedures should be updated to reflect the process to be applied when requesting refunds.		Manager		
		4	The Development Control system should accurately reflect details of all payments received and any associated refunds.	High	Planning Support Team Leader	Immediately	Internal Audit follow up December 2017
		5	Consideration should be given to including all of the performance measures which are to be reported through to the DCLG onto the monthly performance monitoring dashboard.	Medium	Planning & Development Team Manager	November 2017	Internal Audit follow up December 2017
6	HR and Payroll	1	A service level agreement (or something similar) should be produced by HR and Financial Services to set out the roles and responsibilities of each team for monthly and annual processes.	Medium	Financial Services Team Manager and HR Manager	31.03.18	Internal Audit follow up April 2018
		2	A review of procedure notes should be undertaken to confirm that they exist for all key tasks that are specific to NWLDC and do not follow the system providers' standard approach – for example reconciliations or internal checking processes. Where necessary procedure notes should be produced.	Medium	Senior Exchequer Services Officer and HR Analyst	31.03.18	Internal Audit follow up April 2018
		3	The planned monthly meetings should start and contingency arrangements made should the meetings not be able to take place for any reason. During the meetings a monthly report that has been run directly from the payroll system (by an officer who cannot make changes to standing payroll data) should be reviewed to confirm that changes are accurate and as expected. The exact details of the checking process	Medium	Financial Services Team Manager and HR Manager	31.12.17	Internal Audit follow up Jan 2018

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
			can be finalised once an appropriate report has been developed with the system providers and is working as expected.				
		4	The reason for the delay in taking pension deductions for the new starters detailed above should be investigated and resolved. If necessary action should be taken to address any shortfalls in contributions for any new starters affected from 01.04.17 (this may require further work to identify any other new starters affected).	Medium	HR Analyst	31.12.17	Internal Audit follow up Jan 2018
		5	HR officers should be reminded of the approach to paying first increments for new starters.	Medium	HR Analyst	Already implemented	Already implemented.
		6	The leaver checklist completed by HR when processing a leaver should be amended to include a check that any outstanding amounts have been recovered for example Occupational Maternity Pay.	High	HR Analyst	Already implemented	Already implemented
		7	The former employee (no. 2469) should be contacted to recover the Occupational Maternity Pay.	Medium	HR Analyst	30.11.17	Internal Audit follow up Dec 2017
		8	The method of calculating unpaid leave should be reviewed to ensure that it is appropriate, accurate and fair.	High	HR Analyst	31.12.17	Internal Audit follow up Jan 2018
		9	Employees should be notified in writing of any significant adjustments to their pay, with a copy retained in their employee file.	Medium	HR Analyst	30.11.17 and ongoing	Internal Audit follow up Dec 2017
		10	The allowance paid to employee no. 888 should be reviewed to ensure it is being paid at the correct rate and if necessary an adjustment should be made to correct any underpayment relating to prior years.	Medium	HR Analyst	31.12.17	Internal Audit follow up Jan 2017
		11	The rates for the laundry/uniform allowance and unsociable hours payments should be included in the report that is due to be taken to CLT detailing errors identified during	Medium	HR Team Manager	31.10.17	Internal Audit follow up Dec 2017

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
			implementation of the new system, so that a decision can be made and documented on the rates going forwards.				
		12	Employee no. 3090 should be processed as a leaver, taking into account the underpayment for unsocial hours payments. If the employee is found to have been overpaid action should be taken to recover this.	High	HR Analyst	Already implemented	Already implemented
		13	The method of calculating paternity leave deductions and pay should be reviewed to ensure that it is an appropriate and fair method.	Medium	HR and Payroll System Project Team	Already implemented	Already implemented
		14	The underpayment for employee no. 3089 should be corrected.	Medium	HR Analyst	Already implemented	Already implemented
		15	Those going on maternity leave should be given a forecasted payment schedule based on their expected maternity leave start date when they notify HR of this date. Consideration should be given to offering employees a choice as to whether their pay is manually adjusted so that they do not experience a loss in pay in their first month of maternity leave.	Medium	HR Manager	Immediate and ongoing	Internal Audit follow up Dec 2017
		16	Exception reports should be annotated electronically (comments boxes can be used to evidence date/time) to evidence review and action taken if appropriate.	Low	Senior Exchequer Services Officer and HR Analyst	Already implemented	Already implemented
		17	The expected process for managers to follow when recruiting consultants should be documented and circulated, as well as being made available on the intranet. Contracts should not be entered into until the employment status has been established by the employing manager and confirmed by HR.	High	HR Manager and Principal Solicitor (Contracts and Commercial)	31.12.17	Internal Audit follow up Jan 2018

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
		18	The contract with the sole trader should be reviewed with any necessary action taken to rectify the incorrect employment status.	High	Financial Services Team Manager and HR Team Manager	Already implemented	Already implemented.

Internal Audit Performance

Performance Measures:

Performance Measure	2017/18 Quarter 3 Target	Position as at 31.10.17	Comments
Delivery of 2017/18 Audit Plan	65%	35%	4 audits in progress, should achieve target by end of quarter depending on cover arrangements
Percentage of Client Satisfaction with the Internal Audit Service	100%	100%	
Compliance with the Internal Audit Standards	Full	No significant gaps in compliance	
Compliance testing of completed recommendations	90%	100%	

Service Plan Actions:

Key Deliverables (Action)	Quarter 3 Milestone	Position as at 31.10.17
Review and update Health and Safety risk assessments to ensure risks to staff and customers are controlled.	Set action plan to implement improvements where necessary	Annual review completed 30.05.17 with no actions required.
Conduct self-assessment audit of all office areas and support activities of the Business Improvement Team.	Conduct Q3 self-assessment audit and report findings to Business Improvement Team	Not yet due
Complete audits as per risk based audit plan	Complete 65% of audit plan	35%
Quarterly progress reports to Audit and Governance Committee	Progress report to Dec A&GC	On track for 6 th December Audit and Governance Committee.
Achievement of PSIAS action plan and associated Quality Assurance and Improvement Programme	Completion of any actions following review	No actions required.
Annual Audit Opinion delivered by 30 th June 2017 deadline.	N/A	Achieved in Q1.
Risk based annual audit plan for 2018/19 approved by 31 March 2018.	N/A	Not applicable.