



## **INTERNAL AUDIT SHARED SERVICE**

**North West Leicestershire District Council**

**Internal Audit Progress Report February 2018**

## **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 28 February 2018 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 6 November 2017. The Interim Audit Manager has been in post since 18<sup>th</sup> December 2017.

## **7 Internal Audit Plan Update**

- 7.1 A progress report against the 2017/18 Internal Audit Plan is documented in Appendix A. Three final reports have been issued since the last update report, in addition, one report has been issued in draft, two reviews are nearing completion and two reviews are to commence during March. The executive summaries for the final reports issued are included in Appendix B. Our work has not identified any significant control weaknesses to draw to the attention of the Committee at this point in time
- 7.2 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 summary details are documented in the 'comments' column in Appendix A.
- 7.3 Since the last progress report, one review has been added to the plan for completion during March 2018 and four reviews have been deferred. There are a number of issues which have impeded on the completion of these reviews and more detail is provided below:

### **Housing**

#### **i) Housing Repairs (*Audit rescheduled for Q1 – 2018/19*)**

- The existing commitments of key staff during February/March have prevented the service from being able to accommodate an internal audit review at this time. The service was subject to an external Health & Safety review during February and there have also been recent staffing changes which have impacted resources.
- The Service has also procured a new materials supply chain in respect of Housing Repairs, which is currently being mobilised to commence in early April. Following discussions with the Head of Housing & Asset Management, it is considered appropriate to defer the audit until Q1- 2018/19. This will enable Internal Audit to review the revised processes in place and give assurance around the robustness of the control framework going forward. We will also undertake a detailed review of progress made with regard to implementing recommendations arising from the Housing Repairs investigation undertaken earlier in the year.

ii) **Gas/ Solid Fuel Servicing and Maintenance (Audit rescheduled for Q1 – 2018/19)**

- Existing commitments of key staff involved in other projects. (mobilisation of project to replace solid fuel heating systems).

iii) **New Council Houses (Audit rescheduled for Q3 – 2018/19)**

- The audit has been deferred to coincide with the scheduled completion date for the first phase of new council house builds (August 2018).

**Community Services**

iv) **Grounds Maintenance (Audit rescheduled for Q2 – 2018/19)**

- Existing commitments of key staff regarding two major capital build projects, an equipment procurement and new restructure.

**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 immediately following the audit, are also included for information.
- 8.2 A further follow up of outstanding recommendations made in relation to the S106 review was undertaken during February. Although some progress has been made since the last update report there is still further work to be undertaken to ensure that robust systems are in place going forward. Internal Audit will continue to monitor progress made in this area. A further follow up is planned for July 2018 and a full review is included in the 2018/19 Internal Audit Plan.

**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.

**10. CIPFA Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition)**

This guidance was due to be published in March 2018 however the date of publication has been delayed to coincide with the issue of the Home Office statutory guidance which is referred to within the document. The guidance will now be issued in the new financial year and will be shared with members of the Audit and Governance Committee when available.

## 2017/18 AUDIT PLAN PROGRESS TO 28 FEBRUARY 2018

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
<b>Housing</b>											
Choice Based Letting	Risk Based	5	-	Removed from plan							New system will not be implemented until much later in the year therefore consider including on 18/19 audit plan. To include as part of wider scope for review of new Homelessness Act in 2018/19.
Gas/Solid Fuel Servicing and Maintenance	Risk Based	10		Moved to 2018/19 Plan.							Deferred until Q1 2018/19 due to service resources.
Assistive Technology and Support Service	Risk Based	4	9.1	Report drafting							
Housing Repairs	Risk Based	10		Moved to 2018/19 Plan							Deferred until Q1 2018/19 due to service resources and implementation of new processes.
New Council Houses	Risk Based	5		Removed from plan							Deferred until Q3 2018/19 as first phase of new build project due for completion in August 2018.
Rent Accounting (7)	Risk Based	6	1.5	Final Report Issued	Grade 1	-	-	-	-	-	
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							

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
<b>Community Services</b>											
Grounds Maintenance	Risk Based	6		Moved to 2018/19 Plan							Deferred until Q2 2018/19 due to service resources.
Hood Park Leisure Centre (4)	Risk Based	6	6	Final Report Issued	Grade 1	-	-	-	-	-	
Hermitage Leisure Centre(5)	Risk Based	6	8.8	Final Report Issued	Grade 2	-	2	2	-	-	
Planning Enforcement	Risk Based	6	-	Moved to 2018/19 Plan							Moved to 18/19 plan to allow for new policy to be embedded.
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.
<b>Planning</b>											
Development Control (3)	Risk Based	6	8	Final report issued	Grade 2	-	3	2	-	-	
<b>Economic Development</b>											
Cultural Services	Risk Based	4	-	Removed from Plan							This Service will be included within phase 2 of the restructure process and therefore the review has been moved to the 2018/19 plan. The requirement and scope for audit will be reviewed in Q4 (18/19).
Coalville Project	Advisory	2									
Business Focus Database	Advisory	1	0.5	Completed	N/A – advisory						
<b>Finance</b>											
ICT Assets (2)	Risk Based	5	13.6	Final report issued	Grade 2	-	3	5	-	-	Planned days exceeded due to wider scope than

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
											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.
	Risk Based		3.1	Cash & Bank – In Progress							
	Risk Based		2.4	Sundry Debtors – In Progress							
	Risk Based		1	Capital Accounting - To commence fieldwork during March 2018.							
Finance Service/Systems Review	Advisory	4	2.5	As required							

Additional Audits added to plan in Q4											
Council Grants	Risk Based	6		To commence March 2018							Additional Audit requested by the Head of Community Services. Assurance sought in relation to completion of formal agreements for grants approved.

## **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.



## EXECUTIVE SUMMARY OF INTERNAL AUDIT FINAL REPORTS ISSUED 01 December 2017 – 28 February 2018

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Main Areas for Improvement	Recommendations				
					C	H	M	L	A
<b>2017/18 Audits</b>									
4 – Hood Park Leisure Centre		Paul Sanders Head of Community Services  Jason Knight Leisure Services Team Manager	Grade 1	Advisory actions only relating to Vending income - covered within recommendations for Hermitage Leisure Centre.	-	-	-	-	-
5 - Hermitage Leisure Centre		Paul Sanders Head of Community Services  Jason Knight Leisure Services Team Manager	Grade 2	Improvements are required in the following areas: - Recording & Checking of Bar Stock - Recording of vending income	-	2	2	-	2
7- Rent Accounting		Chris Lambert Head of Housing  Amanda Harper Housing Management Team Manager	Grade 1	None	-	-	-	-	-

See Appendix A for Key.

RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

Report	Recommendation	Rating	Officer Responsible	Target Date	Internal Audit Comments		
<b>2016/17 Reports</b>							
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	<p>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.</p> <p>The Interim Head of Transformation is no longer in post. A meeting is arranged with the Head of Finance for 15<sup>th</sup> March to discuss.</p>
NA	Key ICT Controls Audit	3	<p>ICT Management should document the new DR arrangements once they have been established e.g. into a formal DR Policy/Plan.</p> <p>Once the new DR arrangements have been established regular DR tests should be planned and undertaken.</p>	Medium	IT Manager	September 2017	<p>The Data Centre Project was completed at the end of January. The Disaster Recovery policy will be produced by 31<sup>st</sup> March 2018. Internal Audit will therefore follow up again in April 2018.</p>
14	s106	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	<p>Progress has been made and records of agreements are now held. There are still some resourcing issues, however CLT approval has recently been granted to form a new team to deal with implementation and infrastructure, which will include responsibilities for s106. Further work is required on the database to enable effective monitoring to take place and to ensure that the new</p>

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
							team has the basis to be able to move forward quickly. Internal Audit will follow up in July 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	As per Recommendation 5.  Internal Audit will follow up in July 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 remains ongoing as there is a significant volume to work through. The original target date was not realistic in terms of the amount of work involved. Internal Audit will follow up in July 2018.
		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 remains ongoing as there is a significant volume to work through. The original target date was not realistic in terms of the amount of work involved. Internal Audit will follow up in July 2018.
<b>2017/18 Reports</b>							
1	Right to Buy	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	Followed up in December 2017. In progress – to be completed by March 2018 therefore a further follow up will be undertaken in April 2018.
2	ICT Assets	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	Meeting arranged with Head of Finance to review 15/03/18
3	Development Control	1	Development Control procedure notes should be updated to reflect current practice.	Medium	Planning Support Team Leader	December 2017	Followed up January 2018- Due to resource issues this will now be completed by the end of March.  Internal Audit follow up April 2018

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
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 can be finalised once an appropriate report has been developed with the system providers and is working as expected.	Medium	Financial Services Team Manager and HR Manager	31.12.17	Meeting arranged with Finance Team Manager & Deputy S151 for 12 <sup>th</sup> March 2018 to discuss
		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	Meeting arranged with Finance Team Manager & Deputy S151 for 12 <sup>th</sup> March 2018 to discuss
		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 implementation of the new system, so that a decision can be made and documented on the rates going forwards.	Medium	HR Team Manager	31.10.17	Meeting arranged with Finance Team Manager & Deputy S151 for 12 <sup>th</sup> March 2018 to discuss

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
5	Hermitage Leisure Centre	2	All items of bar stock should be recorded on stock record sheets. Where it is decided that certain stock items are not recorded on stock records this should be formally agreed.	High	Leisure Centres Commercial Manager	February 2018	Internal Audit follow up in March 2018
		3	Regular stock takes of bar stock should be undertaken. The frequency with which checks should be undertaken should be agreed by the Leisure Centres Commercial Manager.	High	Leisure Centres Commercial Manager	January 2018	Internal Audit follow up in March 2018
		4	To provide clarity in the role of stock management, procedures should be drawn up which cover recording of bar and vending stock, stock checks and those members of staff with responsibility for performing tasks associated with stock management. Procedures should reflect any changes agreed as a result of recommendations 2 and 3 above.	Medium	Leisure Centres Commercial Manager	March 2018	Internal Audit follow up in April 2018
		5	The spreadsheet used to check information in connection with vending income should be corrected.	Medium	Leisure Centres Commercial Manager	Already implemented	Already implemented

## Internal Audit Performance

## Performance Measures:

Performance Measure	2017/18 Quarter 4 Target	Position as at 28.02.18	Comments
Delivery of 2017/18 Audit Plan	90%	64.29%	2 Audits nearing completion. 2 Audits to commence during March. Should achieve target by end of quarter.
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 4 Milestone	Position as at 28.02.18
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 Q4 self-assessment audit and report findings to Business Improvement Team	On track – to be completed during March 2018
Complete audits as per risk based audit plan	Complete 90% of audit plan	64.29% at end of February 2018. On track to achieve by end of March 2018
Quarterly progress reports to Audit and Governance Committee	Progress report to March A&GC	On track for 21 <sup>st</sup> March 2018 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 <sup>th</sup> June 2017 deadline.	N/A	Achieved in Q1.
Risk based annual audit plan for 2018/19 approved by 31 March 2018.	2018/19 audit plan has been prepared and will be presented to 21 <sup>st</sup> March 2018 Audit and Governance Committee.	On track