

# NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

## AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 24 JULY 2019

Title of report	<b>INTERNAL AUDIT ANNUAL REPORT</b>
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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>
Council priorities	Supports all council priorities
Implications:	
Financial/Staff	None
Health and Safety	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 Screening	N/A
Human Rights	N/A
Transformational Government	No direct implications.
Consultees	Head of Finance (Section 151)
Background papers	Internal Audit Progress Reports issued during 2018/19 Public Sector Internal Audit Standards
Recommendations	<b>THAT THE AUDIT AND GOVERNANCE COMMITTEE NOTES THIS REPORT.</b>

## 1. INTRODUCTION

- 1.1 This is the annual report of the Chief Audit Executive (Audit Manager) as required by the Public Sector Internal Audit Standards (PSIAS). It covers the period 1 April 2018 to 31 March 2019.
- 1.2 This report includes the Audit Manager'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 2018/19 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 (AUDIT MANAGER) OPINION 2018/19

- 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 2019, I have formed the opinion that the Council's internal control arrangements are a **Grade 2** overall. 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 2018/19

- 3.1 The risk based internal audit plan for 2018/19 was presented and approved by the Audit and Governance Committee on 21<sup>st</sup> March 2018. 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 2018/19 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

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

- 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 2018/19 the internal audit service at the Partnership was provided by Grant Thornton. They issued a report on Debt Recovery and Business Rate Reviews with the conclusion 'significant assurance with some improvement required'. They reported their findings at the Leicestershire Partnership Revenues and Benefits Joint Committee held on 24<sup>th</sup> January 2019. Five 'low' recommendations and three improvement points were made. Partnership management responses including action taken are also included in the report to Joint Committee.
- 3.4 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 2018/19 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 issued three Grade 3 audit reports during 2018/19. These should be considered when preparing the Annual Governance Statement:
- Gas and Solid Fuel Maintenance and Servicing Performance Monitoring  
The main areas identified for improvement were around delays in receiving performance information from the contractor, accuracy of performance reporting and assurances regarding the security of data held by the contractor. All of the audit recommendations have been implemented satisfactorily and in addition a specialist third party auditor has been appointed to provide independent assurance with regards to the standard and quality of work undertaken by the contractor. The Head of Finance has also initiated the development of a contract management guide to provide support and guidance to officers who have responsibility for managing a contract.
  - Grounds Maintenance  
The main areas identified for improvement were around compliance with procurement rules and regulations, documenting procedures, calculation and evaluation of quotes and Health and Safety training arrangements. Follow up work has found that recommendations have been implemented satisfactorily.

- **Health and Safety Arrangements**  
The main areas identified for improvement were around inspections of Council premises, roles and responsibilities, training records, monitoring, recording and demonstrating compliance with Health and Safety requirements. Follow up work to date has found good progress against the recommendations.

There were no Grade 4 audit reports issued during 2018/19.

A number of high priority recommendations were made in respect of other audit reviews undertaken, however as they tend to relate to specific systems and/or service areas, I do not consider it necessary to include them in the Annual Governance Statement. The Section 151 Officer receives all Internal Audit reports issued therefore they are also able to make their own assessment when completing the Annual Governance Statement should they be of a different opinion.

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

- 5.1 The Public Sector Internal Audit Standards (PSIAS) require the QAIP to include internal and external assessments.
- 5.2 The internal assessments applicable to 2018/19 comprise of the following:
  - The Audit Manager/ Interim Audit Manager planned all audit engagements and carried out documented reviews of working papers and draft reports prior to issue.
  - Monthly performance review meetings, attended by the Audit Manager/Interim Audit Manager and the Head of Legal and Commercial Services.
  - 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 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.
- 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 24<sup>th</sup> June 2015. The Audit Manager will make arrangements for a second external assessment during 2019/20.

## **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 2017 and the Audit Manager carried out a review against the additions to the Standards at that time to ensure that we remained compliant from April 2017. There have been no further updates to the standards during 2018/19.
- 6.2 I can confirm that during 2018/19 we conformed to the Public Sector Internal Audit Standards and will continue to do so during 2019/20.

## RESULTS OF INDIVIDUAL AUDIT ASSIGNMENTS 2018/19

Audit Report	Grade	Number of Recommendations					Date reported to Audit and Governance Committee
		Critical	High	Medium	Low	Advisory	
1 – Car Parking and Enforcement	1	-	-	-	-	-	October 2018
2 – Gas and Solid Fuel Maintenance and Servicing Performance Monitoring	3	-	5	3	1	-	March 2019
3 – Housing Repairs	2	-	1	4	-	-	March 2019
4 – Rent Accounting	2	-	1	2	-	-	March 2019
5 – Creditors	2	-	2	1	-	-	March 2019
6 – Grounds Maintenance	3	2	4	4	1	-	To be reported July 2019
7 – Health and Safety Arrangements	3	3	16	1	-	-	To be reported July 2019
8 – Treasury Management	2	-	1	-	1	-	To be reported July 2019
9 – S106							N/A – report in draft form
10 – Main Accounting System	1	-	-	-	-	-	To be reported July 2019
11 – HR and Payroll	1	-	-	1	1	-	To be reported July 2019
12 – Sundry Debtors							N/A – report in draft form
13 – Online Forms (Firmstep)	1	-	-	2	-	1	To be reported July 2019
14 – Budgetary Control	2	-	1	6	1	-	To be reported July 2019
15 – New Council Houses	2	-	-	5	1	1	To be reported July 2019
<b>Total</b>		<b>5</b>	<b>31</b>	<b>29</b>	<b>6</b>	<b>2</b>	

## Appendix B

### SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP 2018/19

Recommendation Priority	Recommendations Made	Recommendations Not Agreed	Recommendations Implemented	Recommendations Outstanding (In Progress or Not Yet Due)	Recommendations Overdue/Not Implemented
Critical	5	-	3	2	-
High	31	-	19	11	1
Medium	29	-	14	15	-
Total	65	-	36	28	1

*“Recommendations Outstanding” figures include recommendations made in respect of the recently issued reports - Online Forms (Firmstep), Budgetary Control and New Council Houses.*

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.