

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY,  
22 JULY 2020**



<b>Title of Report</b>	<b>INTERNAL AUDIT ANNUAL REPORT</b>	
<b>Presented by</b>	Lisa Marron Audit Manager	
<b>Background Papers</b>	<a href="#">Public Sector Internal Audit Standards</a>	<b>Public Report:</b> Yes
<b>Purpose of Report</b>	<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>	
<b>Recommendations</b>	<b>THAT THE COMMITTEE NOTES THIS REPORT AND COMMENTS AS APPROPRIATE.</b>	

<b>Policies and other considerations, as appropriate</b>	
Council Priorities:	An effective internal audit service and risk based plan supports all council priorities.
Consultation/Community Engagement:	The Head of Legal and Commercial Services has been consulted.
Risks:	Not presenting this report to Committee would mean that we have not complied with the Public Sector Internal Audit Standards.
Officer Contact	Lisa Marron Audit Manager <a href="mailto:lisa.marron@nwleicestershire.gov.uk">lisa.marron@nwleicestershire.gov.uk</a>



# **INTERNAL AUDIT SHARED SERVICE**

**North West Leicestershire District Council**

**Internal Audit Annual Report 2019/20**

## 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 2019 to 31 March 2020 for North West Leicestershire District Council.
- 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 2019/20 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 2019/20

- 2.1 I am satisfied that sufficient internal audit work has been undertaken to allow me to give an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control (the control environment). 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 2020, I have formed the opinion that the Council's control environment is a **Grade 2** overall. To be consistent with our Internal Audit opinion grade definitions, this means that I consider that the control environment requires improvement in some areas. This is a positive assurance opinion overall.
- 2.3 My opinion is based on the following:
- All internal audit work undertaken during the year.
  - Follow up audit work in respect of audit recommendations.
  - My knowledge of the Council's governance and risk management structure and processes.
- 2.4 There have been no impairments to the independence of internal auditors during the year.

## 3. SUMMARY OF INTERNAL AUDIT WORK DURING 2019/20

- 3.1 The risk based internal audit plan for 2019/20 was presented and approved by the Audit and Governance Committee on 20<sup>th</sup> March 2019. The plan was developed to

provide assurance on the overall adequacy and effectiveness of internal controls, risk management and governance 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 2019/20 by the in-house team is detailed in Table 1 below. The opinion for individual audits is included in Appendix A for information, along with a comparison of the work delivered against the original audit plan. The completion of the 2019/20 plan was not impacted by the Covid-19 pandemic.

In addition, an IT General Controls audit was provided by a specialist ICT auditor. The opinion for this audit was a Grade 1.

Table 1

<b>Audit Opinion</b>	<b>Number</b>
Grade 1 – Internal controls are adequate in all important aspects	10
Grade 2 – Internal controls require improvement in some areas	3
Grade 3 – Internal controls require significant improvement	0
Grade 4 – Internal controls are inadequate in all important aspects	0
<b>Total</b>	<b>13</b>

- 3.3 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 2019/20 is included at Appendix B.

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

- 4.1 All internal audit reports issued during 2019/20 were either a Grade 1 or a Grade 2.

A small number of high priority recommendations were made in respect of audit reviews undertaken, however as they 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 (see Appendix C for more detail).
- 5.2 The internal assessments applicable to 2019/20 include the following:

- The 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 and the Head of Legal and Commercial Services as well as regular meetings with the Head of Finance.
  - Customer satisfaction surveys were sent out to all Heads of Service and Team Managers who had an audit in their service area. Eight returns for 2019/20 all with overall positive feedback.
  - Quarterly progress reports to senior management and 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 has made arrangements for the next external assessment to take place in November 2020 in order to allow all three partner authorities to be subject to the assessment.
- 5.4 In addition to delivering the annual audit plan and opinion, Internal Audit have added value in the following ways:
- Supporting a number of internal HR investigations to ensure that internal controls are robust with recommendations made to support improvements where appropriate.
  - Providing ad-hoc advice throughout the year to a wide range of services to help ensure that internal controls are maintained or strengthened.
  - Delivering a successful shared service to Blaby District Council which expanded to welcome Charnwood Borough Council from 1<sup>st</sup> April 2020. This adds value to all Councils as the audit team shares learning, expertise and best practice.

## 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 2019/20.
- 6.2 I can confirm that during 2019/20 the Internal Audit Shared Service conformed to the Public Sector Internal Audit Standards.

Appendix A

RESULTS OF INDIVIDUAL AUDIT ASSIGNMENTS AGAINST THE 2019/20 AUDIT PLAN

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
<b>HR AND ORGANISATIONAL DEVELOPMENT</b>											
Project Management	Audit	8	-	Defer to 2020/21.							Defer to 20/21 to allow new corporate arrangements to bed in.
Performance Management	Audit	6	-	Defer to 2020/21.							Defer to 2020/21 to allow full year of new system and final report to be included in audit.
4 –Expenses and Reimbursements	Audit	3	7	Final report issued.	Grade 2	-	1	2	2	1	
<b>HOUSING AND PROPERTY</b>											
Stock Condition Database	Audit	6	0.9	Removed from plan.							Housing Quality Network carrying out a piece of work on this area.
11 - Affordable Housing Section 106/Commuted Sums	Audit	6	10	Final report issued	Grade 2	-	2	4	-	-	
1 - New Housing System (Aareon) Implementation Project	Assurance	4	3.8	Final report issued.	Grade 1	-	-	-	-	-	
14 - Commercial Lettings	Audit	6	8	Final report issued.	Grade 1	-	1	1	-	-	
7 - Homelessness	Additional Audit	6	8.3	Final report issued.	Grade 2	-	3	2	-	-	
<b>COMMUNITY SERVICES</b>											
13 - Planning	Audit	6	7	Final report	Grade 1	-	-	1	-	-	

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
Enforcement				issued							
3 - Licensing	Audit	6	9.3	Final report issued.	Grade 1	-	-	3	1	-	
CCTV	Audit	5	-	Deferred to 2020/21.							CCTV will be in new location from Q1 20/21.
5 - Leisure Contract Procurement	Audit	8	10.8	Final Report Issued	Grade 1	-	-	-	-	-	
<b>ECONOMIC DEVELOPMENT</b>											
2 - Enterprising NWL Grants (Monitoring)	Audit	5	4	Final report issued.	Grade 1	-	-	1	-	1	
<b>LEGAL AND COMMERCIAL SERVICES</b>											
10 - Information Governance	Audit	6	6	Final report issued	Grade 1	-	-	1	-	-	
<b>FINANCE</b>											
Procurement	Audit	8	-	Removed from plan.							Interim arrangements in place while internal review is carried out.
Key Financial Systems	Risk Based Audits	35	25	6 - Cash and Bank final report issued.	Grade 1	-	-	1	-	-	
				9 - General Fund Assets final report issued	Grade 1	-	-	1	-	-	
				12 - Rent Accounting final report issued	Grade 1	-	-	-	-	-	
<b>CUSTOMER SERVICES</b>											
8 - IT General Controls	3 <sup>rd</sup> Party Auditor	2	1.3	Final report issued	Grade 1	-	-	1	-	-	

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
Revenues and Benefits – DWP Memorandum of Understanding	Audit	3	-	Removed from plan.							Reliance will be placed on the work of Partnership Auditors.

## Appendix B

### SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP 2019/20

Internal Audit follow up progress against critical, high and medium priority recommendations in line with the timescales agreed at the time of issuing reports. Any overdue recommendations are highlighted to Audit and Governance Committee. The table below shows the progress against recommendations made by Internal Audit during 2019/20.

Recommendation Priority	Recommendations Made	Recommendations Implemented	Recommendations Outstanding (In Progress or Not Yet Due)
Critical	-	-	-
High	7	4	3
Medium	18	10	8
Total	25	14	11

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 C

### QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME 2019-20

Activity	PSIAS	Result/comments	Frequency
External Quality Assessment	1310	April 2015 Assessment - no significant gaps in compliance.	Every 5 years.
Annual Declaration of Interests	1130	Last forms completed April 2019. New form produced to incorporate Code of Ethics and Principles ready for April 2020.	Annual
Customer satisfaction surveys	1311	Eight responses for 2019/20. All positive overall. We are responding to feedback by reviewing format of reports to include more information to support positive findings.	After each audit
Performance indicators reported in progress reports	1311	Performance indicators included in all quarterly reports to senior management and Audit and Governance Committee.	Quarterly
Improvement actions/continuous improvement	1311	An internal action plan produced for 2019/20 detailing improvement actions which include new ways of circulating draft audit reports using mod.gov and introducing learning and development record for Internal Audit team.	Ongoing
Review of all audit engagements and reports	1311, 2340	All audit engagements and reports are reviewed by another auditor to ensure compliance with PSIAS in terms of meeting audit objectives and quality.	Every audit
Monthly performance reporting and meetings	1311	Monthly performance meetings with Head of Legal and Commercial Services.	Monthly
Annual review of internal audit charter	1000	September 2019 review only identified minor changes to job titles and organisation charts.	Annual
Performance and development review process for staff and training and development records.	1200	All review meetings with team have taken place and a new training and development form introduced to record all training and development from April 2019. Officers recording their CPD in line with their professional body requirements do not need to duplicate records.	Bi- annual review meetings