



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council
Internal Audit Progress Report: August 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 Internal Audit Plan up to the end of August 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 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. 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 2014-15 Internal Audit plan is documented in Appendix A. Five audits have been completed and a further three are in progress.
- 6.2 An Executive Summary of all reports issued since the progress report in May 2014 are documented in Appendix B.
- 6.3 The Internal Audit plan needs to be flexible in order to reflect current issues and resource requirements. There has been a number of changes to the Internal Audit plan approved in March 2014 and details are documented in the 'comments' column in Appendix A.

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 update. Five 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 5 performance information for Internal Audit in relation to its team plan actions and performance indicators is documented in Appendix D.

9 Public Sector Internal Audit Standards (PSIAS) Action Plan Update

- 9.1 The agreed action plan to ensure conformance (where deemed necessary) with the PSIAS is documented in Appendix E, along with a status update. All of the actions are on target to be implemented by the agreed date.

2014/15 Audit Plan Progress: May 2014 (In-house Audit Team Audits)

Audit Area	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						H	M	L	A	
Business Rates Retention	Risk Based	6.0	5.5	Final Report Issued	Grade 1	-	-	-	-	Audit undertaken by agency auditor.
Capital	Key Financial System	5.0	0.0	Audit removed from plan	-	-	-	-	-	Audit no longer required
Cash and Bank	Key Financial System	6.0	3.7	In Progress						
Contracts and Procurement	Risk Based	6.0	0.1	Scheduled for Qtr 3						Moved from Quarter 1 at the request of the Head of Finance
Creditors	Key Financial System	8.0	0.0	Scheduled for Qtr 4						
Debtors	Key Financial System	8.0	0.0	Scheduled for Qtr 4						
Decent Homes Improvement Programme	Risk Based	10.0	8.5	Draft Report Issued	Grade 2	-	1	-	-	
Ethics	Assurance	0.0	0.0	Removed from plan						Testing included within the Governance audit
Fraud	Assurance	8.0	8.0	In Progress						Audit undertaken by agency auditor.
Governance & Ethics	Assurance	10.0	9.6	In Progress						Audit now includes Ethics and number of days have increased.
Grant Income	Key Financial System	5.0	0.0	Scheduled for Qtr 4						
Housing – Other Capital Works	Risk Based	8.0	0.1	Scheduled for Qtr 2						Moved from Quarter 1 at the request of the Head of Housing
ICT Security/Back Up	Key Financial System	2.0	0.0	Scheduled for Qtr 4						
Information Sharing	Risk Based	6.0	0.0	Scheduled for Qtr 3						
Main Accounting	Key Financial System	8.0	0.0	Scheduled for Qtr 4						
Payroll	Key Financial System	8.0	0.0	Scheduled for Qtr 4						
Performance Management	Assurance	6.0	0.0	Scheduled for Qtr 4						Moved from Quarter 4 at the request of the Head of Legal and Support Services
Planned Housing Maintenance	Risk Based	8.0	7.5	Final Report Issued	Grade 2	2	-	-	-	
Planning Policy/Local Plan	Risk Based	6.0	0.6	Engagement Planning						
Rent Accounting	Key Financial System	8.0	0.0	Scheduled for Qtr 4						
Risk Management	Assurance	8.0	0.0	Scheduled for Qtr 3						

Audit Area	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						H	M	L	A	
Sunbed Policy	Risk Based	4.0	4.0	Draft Report Issued	Grade 2	3	-	-	-	Additional audit requested by the Head of Community Services.
Treasury Management	Key Financial System	6.0	5.8	Final Report Issued	Grade 1	-	-	-	-	Audit undertaken by agency auditor.

KEY

Assurance Levels:

- Grade 1 Internal Controls are adequate in all important aspects
- Grade 2 Internal Controls require improvement in some areas
- Grade 3 Internal Controls require significant improvement
- Grade 4 Internal Controls are inadequate in all important aspects

Recommendations:

- H High Priority
- M Medium Priority
- L Low Priority
- A Advisory

Appendix B

EXECUTIVE SUMMARY OF FINAL INTERNAL AUDIT REPORTS ISSUED BETWEEN JUNE 2014 AND AUGUST 2014

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Areas for Improvement	Recommendations			
					H	M	L	A
Business Rates Retention	Corporate	Head of Finance	Grade 1	None identified	-	-	-	-
Planned Housing Maintenance	Housing	Head of Housing Repair and Investment Team Manager	Grade 2	<p>All staff with responsibility for ordering goods and services should be given enhanced induction training covering Contract Procedure Rules and Financial Regulations.</p> <p>The workload of the Repairs Client Team Leader should be reviewed by management and appropriate measures considered and implemented.</p>	2	-	-	-
Treasury Management	Corporate	Head of Finance	Grade 1	None identified	-	-	-	-

Recommendations Tracker – Outstanding High & Medium Recommendations

Report		Recommendation	Rating	Officer Responsible	Target Date	Status	Management Comments
2012/13 Reports							
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	Financial Team Manager	April 2013 Revised date: Oct 2013 March 2014 June 2014 Sept 2014	In Progress (overdue) Financial Team Manager comments: We have carried out testing and the process is working as it should. We have now asked Consilium to activate this module.
2013/14 Reports							
6	Risk Management	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 Revised Date: July 2014 Dec 2014	In Progress (overdue) Head of Finance comments: The Risk Management Strategy was agreed by Cabinet on 29 July and is on this Audit and Governance Committee agenda. From Q2 risk updates will be reported to Cabinet and the Audit and Governance Committee.
		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 Revised Date: April 2014 Dec 2014	In Progress (overdue) Head of Finance comments: This will be implemented from Q2 (please see recommendation 2 above).
10	Housing Maintenance	5	The specification for the new mobile working system should include the capability to transfer details of materials ordered and used to the Capita Housing Maintenance system and should be introduced as soon as possible.	High	Project Officer (HRA BP)	Est August 2014 Revised Date: Sept 2014	In Progress Repairs and Investment Team Manager Comments: Oneserve will hold a record of all parts ordered and used by job and operative. All parts ordered will be generated against a PO with a GRN raised to match. Revised Go-live date is 29 th September 2014.

Report		Recommendation		Rating	Officer Responsible	Target Date	Status	Management Comments
16	Payroll	3	Selima should provide evidence of their internal processes that ensure all data supplied by NWLDC is entered into the payroll system and accurately reflects the input received from NWLDC and any legislative requirements relating to the input; once these processes have finished Selima will notify NWLDC prior to authorisation of the submission of the BACS file making the payroll payments.	High	Head of Finance	August 2014	In Progress (overdue)	Head of Finance comments: There has been a further meeting with the service provider, Selima, to clarify their internal processes and they have undertaken to provide documentation by the end of September 2014.
		4	The exception reports should be redesigned to ensure they are fit for purpose and the Senior Exchequer Services Officer and a Senior Human Resources Advisor should formally accept the revised Selima exception reports prior to authorisation of the submission of the BACS file making the payroll payments.	High	Senior Exchequer Services Officer & Human Resources Team Manager	September 2014	In Progress	Financial Team Manager comments: We are working with the Selima to agree improved exception reports by the end of September.
		5	The draft service level agreement prepared by Selima should be redrafted with more performance targets identified. Until this happens it would be sensible to have formal recording of issues maintained by NWLDC and Selima with monthly exchange of such detail	High	Head of Finance	August 2014	In Progress (overdue)	Financial Team Manager comments: Issues are recorded and raised every month. In addition the Head of Finance holds quarterly meetings where concerns are raised as necessary. The SLA is being updated as part of retendering the service from April 2015.
17	ICT Security & Back Up Controls	1	ICT staff should only create a network user account on receipt of a properly authorised network access request and ensure that access rights are disabled for any user where notification is received that the user no longer requires network access.	High	ICT Team Manager	December 2014	In Progress	ICT Team Manager Comments: Process is in place – January test is to reconcile active accounts with HR records to ensure process is working

Report		Recommendation		Rating	Officer Responsible	Target Date	Status	Management Comments
		3	ICT in conjunction with Departmental managers should review the network access for staff under their control on an annual basis and the ICT Service Desk staff should ensure that managers authorise the required data areas for any user that has a change of role necessitating a variation in their access rights.	High	ICT Team Manager	March 2015	In Progress	ICT Team Manager Comments: To be addressed as part of the preparation for the 2014-15 PSN submission
		4	The ICT Team Manager should expedite the introduction of the proposed revised backup arrangements and perform a disaster recovery test at the earliest opportunity.	High	ICT Team Manager	December 2014	In Progress	ICT Team Manager Comments: New backup solution implemented and being tested onsite at council offices before being relocated offsite. In the meantime, tape backups still being done.
2014/15 Reports								
1	Planned Maintenance	1	All staff with responsibility for ordering goods and services should be given enhanced induction training covering Contract Procedure Rules and Financial Regulations.	High	Repairs & Investments Team Manager	October 2014	In Progress	Repairs and Investment Team Manager comments: Training to be delivered by the end of October 2014.
		2	The workload of the Repairs Client Team Leader should be reviewed by management and appropriate measures considered and implemented.	High	Repairs & Investments Team Manager	October 2014	In Progress	Repairs and Investment Team Manager comments: Responsive Repairs Manager meeting with Client Team 5/9/14.

Internal Audit Performance: August 2014

Performance Measures:

Performance Measure	2014-15 Qtr 2 Target	Position as at 31.08.14	Comments
Delivery of Audit Plan – Key Financial Systems	20%	11%	Treasury Management audit completed and Cash and Bank in progress. Target will be achieved for the quarter.
Delivery of Audit Plan – Non Key Financial Systems	84%	33%	Four audits have been completed and another two will be completed by the end of the quarter. The estimated outcome is 50%. A number of audits have been moved to later in the year at the request of the Head of Service. Audit resources were used to complete the 2013/14 audit plan during Quarter 1.
Percentage of time spent on audit work	75%	81%	
Percentage of Client Satisfaction with the Internal Audit Service	100%	n/a	Customer satisfaction surveys to be issued in October 2014.
Compliance with the Internal Audit Standards	n/a	n/a	Annual target.
Compliance testing of completed recommendations	90%	100%	

Service Plan Actions:

Key Deliverables (Action)	Quarter 2 Milestone	Position as at 31.08.14
Review and update Health and Safety risk assessments to ensure risks to staff and customers are controlled.	Conclude review of Health and Safety risk assessments for all service areas	On Target Health and Safety Risk assessment in progress.
Undertake audits as per agreed Audit Plan.	Complete audits of 7 systems to enable the completion of the audit plan	On Target Five audits have been completed and a further three are in progress.
Provide the Audit Committee with quarterly reports on the work and performance of internal audit.	Progress report to September Audit Committee	On Target
Achievement of the PSAIS	Completion of action plan targets	On Target PSIAS Action Plan and status report documented in Appendix E.
Produce the 2013/14 Annual Audit Opinion Report by 30 th June 2014	No action for Quarter 2.	-
Produce and have approved the 2015/16 Internal Audit Plan by 31 st March 2015.	No action for Quarter 2	-

Public Sector Internal Audit Standards (PSIAS) – Action Plan

Action		Target Date	Status
1	Set-up quarterly meetings with the Chair of the Audit Committee.	28 th February 2014	Implemented
2	Develop comprehensive performance targets for Internal Audit.	28 th February 2014	Implemented
3	Review the format of the Engagement Plan (Terms of Reference) to ensure conformance with the PSIAS.	28 th February 2014	Implemented
4	Review the format of the Engagement Programme (Audit Programme) to ensure conformance with the PSIAS.	28 th February 2014	Implemented
5	Update the Internal Audit Report format to ensure conformance with the PSIAS.	28 th February 2014	Implemented
6	Update the issuing of reports and the monitoring and follow up of management actions process.	28 th February 2014	Implemented
7	Produce a risk based annual audit plan.	31 st March 2014	Implemented
8	Update the Progress Report to Managers and Audit Committee Members to ensure conformance with the PSIAS.	31 st March 2014	Implemented
9	Update the Declaration of Interest Form for Internal Audit Staff.	31 st March 2014	Implemented
10	The Senior Auditor to provide the Internal Auditors with training in relation to the Bribery Act 2010	31 st March 2014	Implemented
11	Review the Annual Internal Audit Opinion Report to ensure conformance with the PSIAS.	31 st May 2014	Implemented
12	The Head of Finance to obtain feedback on the performance of the Chief Audit Executive from the Chief Executive, the Chair of the Audit Committee and Blaby District Council as part of the appraisal process.	31 st May 2014	Implemented
13	Undertake a self-assessment against the PSIAS.	30 th June 2014	Implemented
14	Agree the process for the acceptance and authorisation of consulting engagements.	30 th June 2014	Implemented
15	Develop a Quality Assurance and Improvement Programme.	30 th September 2014	In Progress
16	Review and update the job descriptions and personal specifications for Internal Audit Staff.	30 th September 2014	In Progress
17	Assess the collective skills, knowledge and competencies of the Internal Audit Team.	31 st December 2014	
18	Develop a programme of continuing professional development	31 st December 2014	
19	Update the Internal Audit manual.	31 st December 2014	
20	Review the computer assisted audit techniques available and access whether they could be used to perform audit testing.	31 st December 2014	
21	Undertake an assurance mapping exercise.	31 st January 2015	
22	Produce an Internal Audit Strategy in conformance with the PSIAS.	28 th February 2015	
23	Produce a risk based annual audit plan in conformance with the PSIAS.	28 th February 2015	
24	Undertake a fraud evaluation of the authority.	31 st March 2015	