

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY 26  
JULY 2023**



<b>Title of Report</b>	<b>INTERNAL AUDIT ANNUAL OPINION REPORT 2022-23</b>	
<b>Presented by</b>	Kerry Beavis 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 effectiveness of the Council's framework of governance, risk management and internal 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 audit plan supports all council priorities.
Safeguarding:	No specific safeguarding considerations identified during our 2022-23 audit work.
Equalities/Diversity:	No specific equalities or diversity considerations identified during our 2022-23 audit work.
Customer Impact:	No specific customer impact however improvements to the overall control environment would potentially benefit all customers.
Economic and Social Impact:	No specific economic and social impact identified during our 2022-23 audit work.
Environment and Climate Change:	No specific environment and climate change impact identified during our 2022-23 audit work.
Consultation/Community Engagement:	The Head of Legal and Support Services, the Interim Director of Resources (S151) and the Chief Executive have been consulted.
Risks:	Not presenting this report to Committee would mean that we have not complied with the Public Sector Internal Audit Standards.
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# **INTERNAL AUDIT SHARED SERVICE**

**North West Leicestershire District Council**

**Internal Audit Annual Report 2022/23**

## **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 2022 to 31 March 2023 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. This is formulated by taking in to account the following –
- All audits completed during the year.
  - Any follow up actions taken in respect of audits from previous periods.
  - High priority recommendations not accepted by management or acted upon and any associated risks.
  - The effect of any significant changes in the Council's objectives, activities or systems.
  - Matters arising from previous reports to the Audit and Governance Committee.
  - Whether any limitations have been placed on the scope of Internal Audit (there have not been any).
  - The extent to which resources constraints may impinge upon the Internal Audit Manager's ability to meet the full audit needs of the Council.
  - What proportion of the Council's audit need has been covered to date.
  - The results of work performed by other assurance providers including the work of the External Auditors.
- 1.3 This report also includes:
- A summary of internal audit work carried out during 2022/23 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 2022/23**

- 2.1 2022/23 has been a particularly difficult year in terms of resources and staff turnover both within the internal audit section and the areas audited. The audit service has been unable to recruit to a vacant post. However, this has been addressed with the Corporate Leadership team and the audit partners and a new structure has been agreed to ensure that going forward the audit coverage will be proportionate to the Council's need.

Across other areas of the authority audits have had to be cancelled due to staffing levels, this was particularly prevalent in the housing section, this in turn is of concern as controls will be weakened due to this issue. An additional area of concern has been the delay in the implementation of the finance system, leading to internal audit being unable to carry out audits within this area for a second year.

Internal audit has continued to provide the additional support required for assurance on grants, specifically the energy grants.

- 2.2 In line with the Public Sector Internal Audit Standards Internal Audit have worked flexibly throughout the year whilst still ensuring a sufficient, although reduced, level of audit coverage 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.
- 2.3 For the 12 months ended 31 March 2023, I am only able to give **limited assurance** on the overall control environment. To be consistent with our Internal Audit opinion definitions, this means that significant gaps, weaknesses, or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. As this is not a positive assurance overall it is expected that a corporate management action plan will be put in place to respond to this annual opinion.
- 2.4 My opinion is based on the following:
- All internal audit work undertaken during the year, this includes advisory work as well as assurance, and supports the view on internal control arrangements.
  - Follow up audit work in respect of audit recommendations.
  - My knowledge of the Council's governance and risk management structure and processes.
- 2.5 There have been no impairments to the independence of internal auditors during the year.

### **3. SUMMARY OF INTERNAL AUDIT WORK DURING 2022/23**

- 3.1 The risk based internal audit plan for 2022/23 was presented and approved by the Audit and Governance Committee on 20 April 2022. Progress against this 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 2022/23 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 audit plan.

Table 1

<b>Opinion</b>	<b>Definition</b>	<b>Number</b>
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited	0
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited	3
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	5
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited	-
<b>Total number of audit reports</b>		8

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 2022/23 the internal audit service at the Partnership was provided by Mazars. The overall assurance of the 21/22 audit of council tax and business rates, reported to the Leicestershire Partnership Revenues and Benefits Joint Committee during 2023, was reasonable assurance.

3.4 Internal Audit follow up progress against recommendations in line with the timescales agreed at the time of issuing reports. The Corporate Leadership Team are updated on monthly on the progress of the recommendations and 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 2022/23 is included at Appendix B.

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

4.1 The Internal Audit team have issued 5 audit reports with limited assurance during 2022/23. These should be considered when preparing the Annual Governance Statement:

- Rent Accounting & Rent Arrears  
The main areas identified for improvement were the completion of reconciliations, management and monitoring of accounts in both arrears and credit, the production of a corporate debt policy and the review of the removal of properties from the rent debit.

- **Tax – IR35 & P60**  
The main areas identified for improvement were the processes to follow and the retention of documentation in relation to the recruitment of consultants/ temporary staff, including the adherence to contract procedure rules, and the correct recording of VAT for expenses claimed.
  
- **Payroll**  
The main areas identified for improvement were the segregation of duties between the HR and payroll functions, the review of the establishment, access to the iTrent system and testing of the system when updates/ patches have been applied.
  
- **Choice Based Lettings**  
The main areas identified for improvement included the management and monitoring of the waiting list, including suspended applications, and the documenting of decisions.

There were no audit reports issued without any assurance during 2022/23.

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 (see Appendix C for more detail).
  
- 5.2 The internal assessments applicable to 2022/23 include the following:
  - Monthly performance review meetings attended by the Audit Manager and the Head of Legal and Support Services as well as regular meetings with the Head of Finance.
  - Customer satisfaction surveys were sent out to all Team Managers and/or Team Leaders who had an audit in their service area. Only one return was received for 2022/23 which was overall positive feedback.
  - Quarterly progress reports to the Corporate Leadership Team 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. In December 2020 the shared internal audit service had an external quality assessment and the full report was presented to Audit and Standards Committee on 1<sup>st</sup> February 2021.

- 5.4 It was the assessor's opinion that Internal Audit at Blaby, Charnwood and North West Leicestershire Councils **conforms with the PSIAS**.
- 5.5 In addition to delivering the annual audit plan and opinion, Internal Audit have added value in the following ways:
- Providing advice and support in undertaking elements of the pre and post payment assurance checks for the Covid-19 Grants and Energy Grants.
  - Providing assurance on various other grants during the year – LAD 1b green grant, DEFRA Biodiversity Grant and COMF grant.
  - Providing ad-hoc advice throughout the year to a wide range of services to help ensure that internal controls are maintained or strengthened.
  - The continued delivery of a successful shared service to Blaby District Council and Charnwood Borough Council. 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 December 2020 concluded that there were no significant gaps in compliance.
- 6.2 I can confirm that during 2022/23 the Internal Audit Shared Service conformed to the Public Sector Internal Audit Standards.

## Appendix A

### RESULTS OF INDIVIDUAL AUDIT ASSIGNMENTS AGAINST THE 2022/23 AUDIT PLAN

Audit Area	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						C	H	M	L	
Housing Repairs	Audit	10	16	Cancelled						Cancelled due to staffing issues within the housing department and audit being unable to verify the findings gathered to date.
Housing Planned Maintenance	Audit	10	4	Cancelled						Cancelled due to staffing issues within the housing department and audit being unable to verify the findings gathered to date.
Choice Based Lettings	Audit	8	11.5	Completed	Limited	-	5	6	-	
Rent Arrears	Audit	7	7	Completed	Limited					Included within Rent Accounting audit.
Right to Buy	Audit	8	9.5	Completed	Reasonable	-	4	5	2	
Anti-social behaviour	Audit	8	7.5	Completed	Reasonable	-	-	3	-	
Key financial systems	Risk based	26		Q2/3/4						Deferred until 23/24 due to the delay in the implementation of the new finance system.
Tax	Audit	10	9.5	Completed	Limited	-	5	3	1	
Covid-19 Related Assurance	As required	10	6	As required						
LAD 1b Green Grant	Certification	-	5.5	Completed		-	-	-	-	Addition to plan
Tenant Association Accounts	Advisory and review		2	Completed						Addition to plan
COMF grant funding	Certification		1.5	Completed	N/A	-	-	-	-	Addition to plan
DFG	Certification	1	1	Completed	N/A	-	-	-	-	
Procurement	Audit	10	5	Completed		-	-	-	-	Addition to plan
Rent Accounting	Audit	4	10	Draft	Limited	-	8	2	1	
Payroll	Audit	4	7	Completed	Limited	-	7	3	-	
IT Health Check	Audit			Completed	Reasonable	-	3	4	-	

Recommendations key – see Appendix B



**SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP 2022/23**

Internal Audit follow up progress against critical, high, and medium priority recommendations in line with the timescales agreed at the time of issuing reports. The progress of recommendations is reported to the Corporate Leadership Team on a monthly basis and any overdue recommendations are highlighted to Audit Committee.

The table below shows the progress against recommendations made by Internal Audit during 2022/23. The reason that there is such a high number of recommendations in progress or not yet due is due to the timings of the audit and the agreed implementation dates not then being until 2023/24, these will continue to be reported to Audit Committee.

Recommendation Priority	Recommendations Made	Recommendations Implemented	Recommendations Outstanding (In Progress or Not Yet Due)	Recommendations Overdue
Critical	-	-	-	-
High	32	7	25	-
Medium	26	6	20	-
Total	58	13	45	-

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/Advisory	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## Appendix C

### QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME 2022-23

Activity	PSIAS	Result/comments	Frequency
External Quality Assessment	1310	December 2020 Assessment - no significant gaps in compliance.	Every 5 years.
Annual Declaration of Interests	1130	Forms completed in April 2022, this includes Code of Ethics and Principles.	Annual
Customer satisfaction surveys	1311	One received for 2022/23. Positive overall.	After each audit
Performance indicators reported in progress reports	1311	Performance indicators included in all quarterly reports to corporate leadership team and Audit Committees.	Quarterly
Improvement actions/continuous improvement	1311	An internal action plan produced for 2022/23 detailing improvement actions which included rolling review of the internal audit service to ensure compliance with standards.	Ongoing
Review of all audit engagements and reports	1311, 2340	All audit engagements and reports are reviewed by the audit manager 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 Support Services (Monitoring Officer) and the Head of Finance (S151 Officer).	Monthly
Annual review of internal audit charter	1000	Shared Service Charter updated with only minor amendments and reported to Audit & Governance Committee in October 2022. Annual review takes place in September each year.	Annual
Performance and development review process for staff and training and development records.	1200	All review meetings with team have taken place and the training and development recorded within system for all training and development identified and completed. Officers recording their CPD in line with their professional body requirements do not need to duplicate records.	Bi- annual review meetings

