

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 7
AUGUST 2024**



Title of Report	MANAGEMENT RESPONSE TO ANNUAL INTERNAL AUDIT OPINION 2023/24	
Presented by	Paul Stone Director of Resources	
Background Papers	Management Response to Internal Audit Opinion 2022/23 – Audit & Governance Committee 26 July 2023 NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL	Public Report: Yes
Financial Implications	There are no direct financial implications to be considered.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	There are no direct legal implications arising from this report.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	There are no direct staffing or corporate implications arising from this report.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	This report provides details of the Internal Audit Opinion 2023/24 and the Management Response to the findings.	
Recommendations	THAT THE COMMITTEE NOTES THE MANAGEMENT RESPONSE TO THE ANNUAL AUDIT OPINION 2023/24.	

1.0 BACKGROUND

1.1 In accordance with the Public Sector Internal Audit Standards (PSIAS) the Chief Audit Executive (the Internal Audit Manager at North West Leicestershire District Council) is required to produce an annual report. The report covering the financial year 2023/24 is set out on a separate item on the Committee's agenda.

1.2 The Opinion covers the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The draft Internal Audit Annual Opinion for 2023/24 is 'Limited Assurance'.

1.3 It is recognised that this is the second consecutive year that the opinion has been 'Limited Assurance' and that this is not acceptable and requires improvement. Before considering the management response to this year's opinion, the Committees attention is drawn to the progress on the action plan in response to the 2022/23 opinion. The action plan is attached to this report at Appendix One. Significant progress has been made in a number of areas identified on the action plan including:

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- Internal audit recommendations are a standing item on the Corporate Leadership Team agenda.
- Statutory Officers discuss the recommendations with the Head of Internal Audit and where the recommendations are not being actioned in line with the timescales identified in the Audit, the Statutory Officers request that the Director and Head of Service attend the Statutory Officer meeting to provide further details of the actions being taken.
- Recruitment to key internal audit posts.
- Senior Leadership structure is now embedded with a Director of Resources (S151 Officer) joining the Council in September 2023.
- The Internal Audit Team have offered to attend team briefings to raise the profile of Internal Audit. The offer will be extended into 2024/25 to further encourage and enable teams to meet with Internal Audit to understand their role.
- Project management guidelines and templates developed and available for all staff. Project management training is also scheduled for September 2024, together with an e-learning module which has been developed and is to be published shortly.
- The Director of Resources and Internal Audit Manager have worked with the Audit and Governance working group on a programme of training and development for the Committee. This has included sessions on risk management, accounts, internal audit progress reports and standards and ethics reports.
- An extensive programme of training on Governance has been delivered to all managers across the Council
- The Council has been recognised by the Local Government Association for its approach to Governance and Assurance for the changes it has implemented.

1.4 A further action was to appoint an Independent Member of the Audit and Governance Committee. Whilst the Council has advertised the position on two occasions, there has been no interest. However, the requirements for the role have been updated and social media and other media will be used to advertise the role more widely to reach a broader audience.

2.0 MANAGEMENT RESPONSE AND ACTIONS

2.1 The assurance provided by the internal audit function is an important part of the overall corporate governance framework of the Council. The Council is committed to improving the effectiveness of internal audit to optimise assurance. It is recognised this will require process, procedural and, most importantly, cultural change across the Council to provide the appropriate level of assurance.

2.2 Following the issuance of the Opinion, and with an understanding of the circumstances under which it was formulated, a special meeting of the Corporate Leadership Team convened on 26 June 2024 to discuss the contents of the Opinion. The actions agreed are set out below.

Planned Actions

2.3 The Audit and Governance Committee is provided with internal audit reports that are deemed to have limited or no assurance. In instances where a report is assigned this opinion, the respective Director and Head of Service are required to present before the Audit and Governance Committee, detailing the measures they are implementing in response to the recommendations. In the context of governance, the attendance of Heads of Service at this Committee meeting is a crucial step in ensuring accountability and transparency. These meetings serve as a platform for leaders to present the actions they have taken in response to recommendations made by previous audits. It is an opportunity for them to articulate their strategies, progress, and any challenges they face in implementing changes. If there has been no progress, it is equally important for them to explain the reasons, whether they are due to resource constraints, shifting priorities, or unforeseen complications. This process not only holds Directors and Heads of Service accountable but also provides valuable insights into the operational aspects of the Council, fostering a culture of continuous improvement. The Committee can then assess the validity of the explanations provided and offer appropriate challenge and guidance.

2.4 The Council's Statutory Officers have agreed in principle to enhancing Internal Audit capacity. To maintain consistent auditing of the Council's services and to guarantee thorough implementation of recommended actions, it has been decided to recruit an extra officer for the Internal Audit team. A proposal for additional resources will be presented during the budget setting process for the 2025/26 financial year for consideration by Members.

2.5 The Internal Audit team will keep detailed records of implemented audit recommendations to demonstrate progress and direction. This documentation will serve as a clear indicator of the improvements made and the ongoing journey towards improved audit opinions within services.

2.6 A dedicated meeting of the Corporate Leadership Team (CLT) will be held in August to focus exclusively on Internal Audit processes. This dedicated session will allow for discussion of Internal Audit's contribution to the governance of the Council. Subsequently, the CLT will convene monthly, dedicating these sessions exclusively to the discussion of recommendations from internal audits.

2.7 There will be a renewed focus on the Internal Audit function which will be achieved through:

- Stakeholder engagement –educating Council's officers on the role of Internal Audit. This includes explaining their role in evaluation the effectiveness of risk management, control and governance processes.

- Demonstrating value – showing how internal audit can help the Council. This could be through risk-based auditing, aligning internal audit assurance and advice to the Council's strategic risks and priorities.
- Enhanced reporting – ensuring the information within audit reports tells the story of the internal audit opinion.
- Working with the Audit and Governance Committee – the presence of an audit committee can enable a higher profile for internal audit, clearer reporting lines, additional assurances that internal audit reports would be acted upon, and independent monitoring of audit performance.

2.8 Internal audits are currently conducted on a by-exception basis focusing primarily on areas with significant risks or where problems have been previously identified. This approach allows auditors to concentrate their efforts on the most critical aspects of the Council's operations, ensuring that resources are used efficiently. However, it's important to note that while this method is effective for pinpointing issues, it may overlook areas where services are performing well. By acknowledging the good work being done, the Council can motivate staff, reinforce positive behaviour, and foster an environment of continuous improvement.

2.9 An Action Plan has been developed to monitor progress, a copy of which is shown at Appendix Two. From a management perspective the progress against delivery of the Action Plan will be reported to the Statutory Officer Group at its meetings. A status update report on delivery against the Action Plan will be provided to Audit and Governance Committee at future meetings.

3.0 Summary

3.1 Management has recognised the necessity to prioritise the improvement of internal audit reports that have been categorised as 'limited assurance.' A proactive approach is essential to enhance this area.

3.2 The issuance of numerous limited assurance reports is concerning but is not unexpected given the specific ask of Internal Audit to focus specifically on those areas where senior management have identified risks. It is important to note, also, that the Council is navigating through several well-known sectoral and national challenges that are not unique to North West Leicestershire. These include issues with staff recruitment and retention, as well as ongoing recovery from the impacts of Covid-19. Housing remains an area with significant capacity constraints, yet the establishment of the Housing Improvement Board provides oversight of future developments including a more onerous regulatory environment. The Committee has been kept informed by the Director of Resources about the challenges faced by the Finance Team, which were also detailed in a comprehensive letter to Committee members.

3.3 The Committee Members can be confident that a substantial number of audit recommendations have been successfully actioned over the past year. This progress is a testament to Management's commitment to continuous improvement. Presenting detailed information, as highlighted in paragraph 2.5 above, on the volume and schedule of these implementations will provide the Committee with valuable insights into the direction of travel of the Council's processes and governance.

Policies and other considerations, as appropriate	
Council Priorities:	- A Well-Run Council
Policy Considerations:	Not applicable.

Safeguarding:	Not applicable.
Equalities/Diversity:	Not applicable.
Customer Impact:	Not applicable.
Economic and Social Impact:	Not applicable.
Environment, Climate Change and Zero Carbon	Not applicable.
Consultation/Community/Tenant Engagement:	In developing the Action Plan there has been engagement with Statutory Officers, the Corporate Leadership Team and the Internal Audit Manager.
Risks:	The Council's governance arrangements are a critical part of its operations to ensure decision making is robust and effective. Internal audit is an important part of these governance arrangements. There are a number of risks to the Council if it does not have a properly functioning internal audit function. These potential risks include reputation, poor decision making, fraud, lack of control and inadequate assurance.
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