Appendix 1

INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council

Internal Audit Annual Report 2025/26

1. INTRODUCTION

1.1 This report presents the Chief Audit Executive's (Audit Manager's) annual conclusion on the overall adequacy and effectiveness of the Council's governance, risk management and internal control arrangements for the year ended 31 March 2026. The conclusion is provided to support the Council's Annual Governance Statement and to inform Members, senior management and other stakeholders of the overall assurance provided through the internal audit programme.

1.2 The annual conclusion replaces the previous term 'annual opinion', reflecting the terminology adopted within the Global Internal Audit Standards and ensuring alignment with the latest professional standards for internal audit reporting.

1.3 This report includes the Audit Manager's annual conclusion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual conclusion has been formulated taking into 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.

1.4 This report also includes:

- A summary of internal audit work carried out during 2025/26 which supports the conclusion.
- Issues relevant to the preparation of the Annual Governance Statement.
- Internal Audit's Quality Assurance and Improvement Programme (QAIP).
- A statement on conformance with Global Internal Audit Standards in the UK Public Sector.

2. CHIEF AUDIT EXECUTIVE (AUDIT MANAGER) CONCLUSION 2025/26

2.1 The overall conclusion has been split across the three core components of the control environment: governance, risk management and internal controls. This approach is intended to provide a clearer and more balanced assessment of the Council's arrangements and to identify where assurance is strongest and where further improvement is required.

2.2 The annual conclusion has been prepared in accordance with the Global Internal Audit Standards in the UK Public Sector and the related CIPFA Code of Practice for the

Governance of Internal Audit in UK Local Government. In forming this conclusion, it should be noted that assurance cannot be absolute.

2.3 The annual conclusion is based on the programme of risk-based audit work completed during the year, the results of follow-up activity, the status of agreed management actions, relevant advisory and assurance work, and the Chief Audit Executive's professional judgement. The conclusion should be read in the context of the coverage achieved during the year and the limitations inherent in any assurance programme.

2.4 **Annual Conclusion**

Area	Conclusion	Summary rationale
Governance	Reasonable	Governance arrangements have strengthened significantly over recent years and are now generally well established, with clear roles and responsibilities, decision-making structures and reporting arrangements in place. Staff training and development programmes have also supported improvements in governance awareness across the Council. Internal audit work has identified further opportunities for improvement within individual audit areas, and management has agreed actions to address these, in particular the governance around procurement and contract management.
Risk management	Limited	Risk management arrangements are established across the Council, including corporate and service risk registers and processes for the periodic review of risks. During the year, further progress has been made in developing the Council's risk management framework and strengthening oversight of key strategic risks. However, internal audit work identified that risk management practices are not applied consistently across all service areas. Risks arising from identified control weaknesses are not always formally recorded, monitored or escalated through service and corporate risk registers. In addition, service risk registers are not consistently reviewed and updated, limiting assurance that risks are being actively managed and reported at the appropriate level. Audit findings also identified recurring weaknesses in management oversight, monitoring arrangements and the timely implementation of agreed actions. These issues increase the risk that emerging or known risks may not receive appropriate management attention or be addressed promptly. Whilst the Council has the foundations of an effective risk management framework in place, further work is required to embed risk management consistently across the organisation and strengthen accountability for the identification, management and escalation of risk. Consequently, Limited Assurance is provided for the adequacy and effectiveness of the Council's risk management arrangements.

Internal controls	Limited	While controls were operating effectively in several areas reviewed, a number of audits identified weaknesses that reduce assurance over the consistent and effective management of risk. Common root causes included the absence or inadequacy of policies and procedures, insufficient assurance and monitoring arrangements, weaknesses in management oversight, and delays in implementing agreed actions. Collectively, these findings indicate that the control environment is not operating consistently across the organisation and provide only Limited Assurance that key risks are being effectively managed.

2.5 Based on the work undertaken during the year, the Chief Audit Executive's overall conclusion is that the Council has Limited Assurance over the adequacy and effectiveness of its risk management and internal control arrangements and Reasonable Assurance over governance arrangements. The key factors that have informed this conclusion are outlined in Section 4.

2.6 It is important to recognise the significant governance work that has taken place during the year, despite the overall assurance conclusion being limited. Positive progress has been made in strengthening governance arrangements, improving awareness, increasing oversight and supporting clearer accountability across the Council. Work has also continued to develop the risk management framework, including the ongoing review of corporate risks. While further improvement is required to ensure these arrangements are consistently embedded, the work undertaken during the year provides a positive foundation for continued development and demonstrates a clear commitment to improving governance, risk management and internal control arrangements.

2.7 Internal audit continued to provide the additional support required for assurance on grants and with project boards.

2.8 The Chief Audit Executive confirms that no restrictions were placed on the scope of internal audit work, access to records, personnel or premises, and there were no impairments to organisational independence or auditor objectivity during the year.

3. SUMMARY OF INTERNAL AUDIT WORK DURING 2025/26

3.1 The risk based internal audit plan for 2025/26 was presented and approved by the Audit and Governance Committee on 23 April 2025. 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 conclusions given in 2025/26 is detailed in Table 1 below. The conclusion for individual audits is included in Appendix A for information, along with a comparison of the work delivered against the audit plan. Where audits were at draft or in-progress stage at the time of reporting, this has been reflected in Appendix A and considered when forming the annual conclusion.

Table 1

Opinion	Definition	Number
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	1
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	7
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.	6
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	0
	Total number of audit reports	14

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. The internal audit service at the Partnership was provided by Mazars. One audit has been reported for this service for the year 2025/26, for which substantial assurance was given.

3.4 Internal Audit follows up progress against recommendations in line with the timescales agreed when reports are issued. The Corporate Leadership Team receives progress reports relating to outstanding recommendations. The Audit and Governance Committee is updated on the Council's progress against recommendations as part of the quarterly Internal Audit progress reports, including details of ongoing or overdue recommendations. A summary of the recommendation tracking results for 2025/26 is included at Appendix B alongside the number of outstanding audit recommendations from previous years.

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

4.1 **Overview**

The Chief Audit Executive's overall Limited Assurance conclusion has been influenced by the results of internal audit work completed during 2025/26, including six audit reviews that received a Limited Assurance opinion. Whilst no audits resulted in a No Assurance opinion, the findings identified indicate that improvements are required to strengthen risk management and internal control arrangements across a number of service areas.

In considering the preparation of the Annual Governance Statement (AGS), management should have regard not only to the findings of individual audit reviews but also to the recurring themes and underlying control weaknesses identified across the audit programme.

4.2 Recurring Themes Arising from Internal Audit Work

In addition to the findings identified within individual audit reviews, Internal Audit has considered the common themes arising across audit work completed during 2025/26. These themes have informed the Chief Audit Executive's annual conclusion and provide insight into the factors affecting the Council's governance, risk management and internal control framework.

The most significant recurring themes identified were:

Policies, Procedures and Documentation
Several audits identified that policies, procedures and supporting guidance were either absent, out of date or insufficiently documented. This creates a risk of inconsistent practices being applied across services, reduces resilience where key knowledge is held by individuals, and limits assurance that processes are operating in accordance with management expectations, legislation and regulatory requirements.

Management Oversight and Monitoring
A recurring theme across a number of audits was the need for stronger management oversight and monitoring arrangements. This included weaknesses in performance monitoring, review mechanisms, quality assurance processes and the regular scrutiny of key controls. Where management oversight is not operating effectively, there is an increased risk that control weaknesses, non-compliance or emerging issues are not identified and addressed in a timely manner.

Implementation of Agreed Actions
Internal Audit has continued to observe delays in the implementation of some agreed management actions. Whilst management generally accepts audit recommendations, delays in implementation prolong exposure to known risks and can reduce the effectiveness of the Council's control environment by allowing weaknesses to remain unresolved.

Project and Contract Governance
Audit work identified opportunities to strengthen governance arrangements surrounding projects, procurement and contract management. Common issues included incomplete documentation, inconsistent record keeping, limited performance monitoring and weaknesses in the recording and management of associated risks. These weaknesses increase the risk of financial loss, poor value for money, non-compliance with legislative and regulatory requirements, and failure to achieve intended project outcomes.

Collectively, these themes indicate that whilst governance structures are generally established and operating effectively, risk management practices and internal controls are not yet consistently embedded within all service areas. The themes identified increase the risk that the Council may not consistently identify, assess, manage and respond to risks that could affect the achievement of its objectives. They also reduce assurance that risks arising from known control weaknesses are being appropriately recorded, monitored and escalated within the Council's risk management framework.

Whilst these themes do not apply equally across all Council services and should be considered alongside the positive progress made in strengthening governance

arrangements during the year, their recurrence across multiple audit reviews was a significant factor in determining the Limited Assurance conclusions for risk management and internal controls. Consequently, they have materially influenced the Chief Audit Executive's overall Limited Assurance conclusion for 2025/26.

4.3 **Limited Assurance Reviews**

The following audit reviews received a Limited Assurance opinion during 2025/26 and represent the most significant areas requiring improvement:

Trade Waste
Weaknesses were identified in debt recovery arrangements, contract management and the adequacy of documented procedures.
Procurement and Contract Management
Improvements are required to procurement procedures, contract register management, compliance monitoring and officer training.

IT Business Continuity
Weaknesses were identified in business continuity planning, disaster recovery testing and supporting guidance.

IT Change Control
Improvements are required to testing arrangements, change documentation, record keeping and change management guidance.

Regeneration Projects (Draft Report)
Weaknesses were identified in project governance, financial monitoring, risk management and post-project evaluation arrangements.

Right to Buy (Draft Report)
Improvements are required to record keeping, cost floor calculations and the management and monitoring of Right to Buy receipts.

There were no audit reports issued with a No Assurance opinion during 2025/26.

4.4 **Implications for the Annual Governance Statement**

Whilst a number of the issues identified relate to specific service areas, Internal Audit considers that the recurring themes highlighted above have wider organisational implications. In particular, weaknesses relating to management oversight, procedural frameworks, the implementation of agreed actions, and project and contract governance have contributed to the overall Limited Assurance conclusion.

The Section 151 Officer and senior management should consider the cumulative impact of these findings, together with other available sources of assurance, when determining whether any significant governance issues require disclosure within the Annual Governance Statement.

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

5.1 The Global Internal Audit Standards require an ongoing Quality Assurance and Improvement Programme (QAIP) covering all aspects of the internal audit activity, including both internal and external assessments.

5.2 Internal quality assurance arrangements during 2025/26 included:

- Review of audit plans, working papers and reports by the Audit Manager.
- Regular performance monitoring and reporting to senior management and the Committee.
- Customer satisfaction surveys, which indicated positive feedback overall.
- Ongoing review of compliance with professional standards.
- Annual review and update of the Internal Audit Charter.

5.3 An external quality assessment was last completed in December 2020, with no significant issues identified. A further external assessment has been deferred and will take place during 2026/27.

5.4 Conclusion on effectiveness based on the results of the QAIP, I am satisfied that the Internal Audit function:

- Is operating effectively
- Continues to operate in general conformance with the Global Internal Audit Standards in the UK Public Sector.
- Has appropriate processes in place to support continuous improvement

Internal Audit has also added value through the provision of advisory support and shared service working, supporting improved governance across the organisation.

6. CONFORMANCE WITH THE GLOBAL INTERNAL AUDIT STANDARDS IN THE UK PUBLIC SECTOR

6.1 The Internal Audit Shared Service has assessed its conformance with the Global Internal Audit Standards, the supporting Application Note, and the CIPFA Code of Practice.

6.2 The service generally conforms with the standards. No significant areas of non-conformance were identified that would affect the annual conclusion.

6.3 The delay in the external assessment has been agreed with senior management and the Audit Committee and does not materially affect the overall assurance conclusion.

Appendix A

RESULTS OF INDIVIDUAL AUDIT ASSIGNMENTS AGAINST THE 2025/26 AUDIT PLAN

Audit Area	Type	Status	Assurance Level	Recommendations				Comments
				C	H	M	L	
Former Tenant Arrears	Audit	Completed	Reasonable	-	-	5	-	
Right to Buy	Audit	Draft	Limited	-	3	1	-	
Damp and Mould	Audit	In progress						
Warmer Homes Grant	Grant Assurance		N/A					
Housing Regulator	Advisory	As required	N/A					This was initially an audit that was agreed prior to the notification from the Housing Regulator. The focus of this work has now changed to advisory following the Regulator inspection
Housing Allocations	Audit	Completed	Substantial	-	-	-	-	
Fleet Management & O' Licence	Audit/ Review							Carried into 2026/27
Leisure Centres Contracts	Audit	Completed	Reasonable	-	1	-	-	
Port Health	Audit	Completed	Reasonable	-	3	2	-	
Food Waste Project	Advisory/ Assurance		N/A					
Burial Services	Audit	Completed	Reasonable	-	1	1	3	
Key financial systems	Audit	In progress						
Committee Admin and Reporting	Audit							Carried into 2026/27
Planning Development Management	Audit	Review						
Local Nutrient Mitigation Fund Grant	Grant Assurance		N/A					
Regeneration Projects	Audit	Draft	Limited	-	10	7	-	
UKSPF	Grant Assurance		N/A					Carried into 2026/27 due to extension on grant spending

Regeneration Projects	Advisory		N/A					
Culture & Ethics	Audit		N/A					Carried into 2026/27
Project Support	Advisory	As required	N/A					
Data Protection	Audit	Completed	Reasonable	-	-	2	-	
Absence Management	Audit	Completed	Reasonable	-	2	3	-	
Health and Safety	Audit	Completed	Reasonable	-	2	6	-	
Business Planning and Performance	Audit		N/A					Carried into 2026/27
Climate Change	Advisory	Q1,2,3,4	N/A					
Procurement & Contract Management	Audit	Completed	Limited	-	10	2	3	
Trade Waste	Audit	Completed	Limited	-	5	4	1	
IT Business Continuity	IT Audit Contractor	Completed	Limited	-	3	2	-	
IT Change Control	IT Audit Contractor	Completed	Limited	-	6	5	1	
Expenses	Audit		N/A					Carried into 2026/27

Recommendations key – see Appendix B

Appendix B

SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP 2025/26

Internal Audit follows up progress against critical, high, and medium priority recommendations in line with the timescales agreed when reports are issued. Progress is reported to the Corporate Leadership Team, and overdue or extended recommendations are highlighted to the Audit and Governance Committee.

The table below shows the progress against recommendations made by Internal Audit during 2025/26. 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, with some audits not yet being finalised, and the agreed implementation dates not then being until 2026/27, these will continue to be reported to the Audit and Governance Committee.

Recommendation Priority	Recommendations Made	Recommendations Implemented	Recommendations Outstanding (In Progress or Not Yet Due)	Recommendations Overdue
Critical	-	-	-	-
High	49	16	33	-
Medium	45	20	23	2
Total	94	36	56	2

The following table below details the number of audit recommendations outstanding from previous years

Recommendation Priority	Recommendations Outstanding (In Progress or Not Yet Due)		Recommendations Overdue	
	2023/24	2024/25	2023/24	2024/25
Critical	-	-	-	-
High	-	-	27	13
Medium	1	-	11	5
Total	1	-	38	18

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

QAIP Mapping to GIAS Principles

QAIP Activity	GIAS Domain / Principle	What the Standard Requires	Result/comments
External Quality Assessment	Domain V: Quality Assurance (External Assessments)	Independent external assessment at least every 5 years.	External review completed in Dec 2020, next scheduled 2026/27, providing independent validation of conformance.
Internal Assessment (Ongoing Monitoring)	Domain V: Quality Assurance (Ongoing Monitoring)	Continuous monitoring of audit performance and quality.	Audit Manager reviews plans, working papers and reports to ensure compliance and quality standards.
Periodic Internal Assessments	Domain V: Quality Assurance (Periodic Self-Assessment)	Periodic internal reviews to assess conformance and performance.	Due to staffing this has yet to be introduced. This will be carried out from Q2 2026/27 onwards.
Review of Audit Engagements	Domain III: Performing Internal Audit Services (Quality & Supervision)	Engagements must be properly supervised and reviewed.	All audits are subject to supervisory review prior to issue to ensure quality and compliance.
Customer Feedback Surveys	Domain IV: Managing the Internal Audit Function (Stakeholder Engagement)	Internal audit should demonstrate value and responsiveness to stakeholders.	Feedback surveys confirm satisfaction and are issued following finalisation of each audit.
Performance Reporting	Domain IV: Managing the Internal Audit Function (Accountability & Reporting)	Regular reporting to senior management and the board.	Quarterly reports to CLT and Audit and Governance Committee demonstrate transparency and accountability.
Improvement and Action Planning	Domain V: Quality Assurance (Continuous Improvement)	Continuous improvement processes must be in place.	Due to staffing this has not been documented. This will be introduced from Q2 2026/27 onwards.
Internal Audit Charter Review	Domain II: Governance of Internal Audit (Mandate & Authority)	Internal audit must have an approved, regularly reviewed charter.	Annual review ensures alignment with GIAS and CIPFA and is approved by the Audit and Governance Committee annually in April.
Independence and Objectivity Declarations	Domain II: Independence & Objectivity	Internal auditors must be independent and free from bias.	Annual declarations confirm independence safeguards are in place and are completed annually.

Management Engagement and Oversight	Domain II: Governance Relationships	Effective communication with senior management and the board.	Monthly and quarterly meetings support oversight, risk awareness and governance alignment.

Conclusion on Quality Assurance

The QAIP provides assurance that:

- Internal Audit activity conforms with the Global Internal Audit Standards in most areas
- Audit work is subject to appropriate supervision and quality review
- There are arrangements in place to support continuous improvement, with further documentation enhancements planned.
- Stakeholder feedback confirms that Internal Audit provides value-added services

Any identified areas for improvement, including those relating to external assessment timing and documentation enhancements, are being progressed through the QAIP action plan and will be addressed during 2026/27.

The Quality Assurance and Improvement Programme has been designed to align with the Global Internal Audit Standards across all domains, including governance, independence, performance, and quality assurance.

The mapping above demonstrates that Internal Audit has established appropriate mechanisms for ongoing monitoring, periodic assessment, and continuous improvement, supported by independent external validation.

Collectively, these arrangements provide assurance that the Internal Audit function is operating effectively and in general conformance with the Global Internal Audit Standards.