



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council
Internal Audit Progress Report: February 2015

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 February 2015.

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 Team Update

- 6.1 The interim Senior Auditor started her four month appointment on 5th January 2015. A review of the Internal Audit Service by the Head of Finance determined that the Service would continue to be delivered via the shared service arrangement with Blaby DC for 2015/16.

7 Internal Audit Plan Update

- 7.1 A progress report against the 2014/15 Internal Audit plan is documented in Appendix A. Thirteen audits have been completed for 2014/15. One is in progress and the remaining two are at the engagement planning stage.
- 7.2 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.
- 7.3 An Executive Summary of all final reports issued since the progress report in December 2014 is documented in Appendix B.

8 Internal Audit Recommendations

- 8.1 Internal Audit monitors and follows up all medium and high risk recommendations. Appendix C lists all outstanding recommendations along with a status update. Eight recommendations outstanding have not been fully 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.

9 Internal Audit Performance Indicators

- 9.1 Period 11 performance information for Internal Audit in relation to its team plan actions and performance indicators is documented in Appendix D.

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

- 10.1 The action plan was put on hold during the service review. The new Senior Auditor started on 5th January 2015 and has continued to progress priority items (see Appendix E). The Senior Auditor will be undertaking a self-assessment for 2014/15 and currently estimates 85% full or partial conformance with applicable questions.
- 10.2 In order to ensure that the limited resources of the team are effectively focussed on achieving an appropriate level of conformance, the Senior Auditor recommends that the external assessment of conformance with the PSIAS is carried out over the next few months. The Senior Auditor is currently looking into options for the external assessment for the shared internal audit service. A new action plan will be produced

following this. It should be noted that, due to the size of the Internal Audit team and the resources available, 100% full conformance with the Standards is not feasible. All areas of non-conformance will be reported in the Internal Audit Annual Opinion report.

11 Risk Management

- 11.1 The Cabinet approved an updated Risk Management Strategy at its meeting on 29 July 2014 and this was presented to Audit and Governance Committee on 24 September 2014.
- 11.2 One of the requirements of the Strategy is for members of the Cabinet and this Committee to receive details of the high level risks monitored through the Corporate Risk Register. These are now included in the Quarterly Performance Reports which are presented to Cabinet. Appendix F to this report shows the information presented to Cabinet at its meeting on 3 March 2015.
- 11.3 The Council's Risk Scrutiny Group, chaired by the Director of Services, reviews the corporate risks quarterly and recommends any changes through the Corporate Leadership Team prior to the information being presented to the Cabinet. No changes were made to the Corporate Risk Register reported at Quarter 3.

2014/15 Audit Plan Progress: February 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	Audit removed from plan	-	-	-	-	-	Audit no longer required.
Cash and Bank	Key Financial System	6.0	6	Final Report Issued	Grade 1	-	-	-	-	
Contracts and Procurement	Risk Based	6.0	0.7	Engagement Planning						Aids and Adaptations contracts.
Creditors	Key Financial System	8.0	6.3	Final Report Issued	Grade 1	-	-	-	-	
Debtors	Key Financial System	8.0	8.8	Final Report Issued	Grade 1	-	-	-	1	
Decent Homes Improvement Programme	Risk Based	10.0	8.5	Final Report Issued	Grade 2	-	1	-	-	
Ethics	Assurance	8.0	0	Removed from plan						Testing included within the Governance audit.
Fraud	Assurance	8.0	10.3	Final Report Issued	Grade 2	3	6	1	-	Audit undertaken by agency auditor.
Governance & Ethics	Assurance	10.0	11.5	Final Report Issued	Grade 2	-	1	1	-	Audit now includes Ethics and number of days has increased.
Grant Income	Key Financial System	5.0	0	Removed from plan						Audit no longer required.
Housing – Other Capital Works	Risk Based	8.0	0.1	Removed from plan						Moved to 2015/16 plan.
ICT Security/Back Up	Key Financial System	2.0	0	Removed from plan						Testing to be included within IT Key Controls audit to be undertaken by Leicestershire County Council.
Information Sharing	Risk Based	6.0	0	Removed from plan						Moved to 2015/15 plan to be combined with a Data Protection audit.
Main Accounting	Key Financial System	8.0	6.7	Final report issued	Grade 1					
Payroll	Key Financial System	8.0	6	In progress						
Performance Management	Assurance	6.0	0.8	Engagement Planning						Moved to Quarter 4 at the request of the Head

Audit Area	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						H	M	L	A	
										of Legal and Support Services
Planned Housing Maintenance	Risk Based	8.0	7.7	Final Report Issued	Grade 2	2	-	-	-	
Planning Policy/Local Plan	Risk Based	6.0	0.6	Removed from plan						The Council is currently engaging the service of a consultant which is providing independent assurance.
Rent Accounting	Key Financial System	8.0	4.6	Final Report Issued	Grade 2	-	2	-	-	
Risk Management	Assurance	8.0	4.2	Final Report Issued	Grade 1	-	-	-	-	Moved to Quarter 4 due to the resources available within Internal Audit.
Sunbed Policy	Risk Based	4.0	4.1	Final 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

EXECUTIVE SUMMARY OF FINAL INTERNAL AUDIT REPORTS ISSUED BETWEEN DECEMBER 2014 AND FEBRUARY 2015

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Areas for Improvement	Recommendations			
					H	M	L	A
6 - Fraud Prevention and Detection	Corporate	Head of Finance	Grade 2	<p>All Members and staff should be provided with information detailing their responsibilities regarding fraud prevention and detection and provided with clear links to the Anti-Fraud and Corruption Strategy and the Confidential Reporting (Whistle-blowing) Policy.</p> <p>Members (in particular, the Audit and Governance Committee) should be provided with training to ensure they can effectively consider the effectiveness of the Authority's Anti-Fraud and Corruption Arrangements.</p> <p>Staff whose duties might bring them into contact with situations where fraud or corruption is a potential risk (e.g. procurement, exchequer, benefits, planning) should be identified and targeted with specific training.</p> <p>All new staff and Members should be made aware of their fraud prevention and detection responsibilities, with training as appropriate, as part of their induction programme.</p> <p>The Anti-Fraud and Corruption Strategy and the Confidential Reporting (Whistle-blowing) Policy should be reviewed and</p>	3	6	1	

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Areas for Improvement	Recommendations			
					H	M	L	A
				<p>up-dated as soon as possible.</p> <p>The individual service risk registers should be revisited to ensure that any potential risks regarding fraud or corruption are identified and that appropriate mitigating actions and controls are in place.</p> <p>Details regarding the management of fraud risks and any identified incidences of fraud should be included within the Council's Annual Governance Statement.</p> <p>Quarterly reporting to the Corporate Leadership Team and the Audit and Governance Committee on how well the council is tackling fraud risks should be undertaken.</p> <p>Human Resources staff should ensure that the new starter checklist is properly completed in all cases, and that internal procedures regarding the retention of (copies of) personal documents such as passports and birth certificates is followed correctly.</p>				
9 - Rent Accounting	Housing	Head of Housing HRA Business Support Team Manager	Grade 2	<p>The Senior Housing Officers should review all static arrears and arrears below £100 every 6 months to ensure adequate recovery action has been taken. All unsatisfactory recovery action should be followed up with the appropriate officer.</p> <p>The Income and Systems Officer should monitor all accounts in credit on a quarterly basis, and report any accounts that have been written off and subsequent payments have been made</p>	-	2	-	-

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Areas for Improvement	Recommendations			
					H	M	L	A
				to the Housing Management department to enable recovery action to recommence.				
10 – Main Accounting System	Corporate	Head of Finance	Grade 1	None identified	-	-	-	-
11 – Risk Management	Corporate	Director of Services and Head of Finance	Grade 1	None identified	-	-	-	-
12 – Creditors	Corporate	Head of Finance Financial Services Team Manager	Grade 1	None identified	-	-	-	-
13 – Debtors	Corporate	Head of Finance Financial Services Team Manager	Grade 1	None identified however an advisory note suggesting the ongoing approach for tackling aged debt is reviewed to ensure it is done in the most efficient way.	-	-	-	1

Key – see Appendix A

Recommendations Tracker – Outstanding High & Medium Recommendations

Report		Recommendation		Rating	Officer Responsible	Target Date	Status	Management Comments
2013/14 Reports								
16	Payroll	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 Revised to March 2015	OVERDUE In Progress	Formal recording of issues has been introduced and these are now raised at quarterly meetings with more senior Selima staff. A new SLA will operate from April 2015.
17	ICT Security & Back Up Controls	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	
2014/15 Reports								
1	Planned Maintenance	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 Revised date: March 2015	OVERDUE In Progress	This is on track as the date for completion is end of March 2015. The workload has been reviewed as part of a review of the whole of the repairs structure.
6	Fraud Prevention and Detection	1	All Members and staff should be circulated with information detailing their responsibilities regarding fraud prevention and detection and provided with clear links to the Anti-Fraud and Corruption	High	Head of Finance / Head of Legal and Support Services	December 2014 Revised Date: March 2015	OVERDUE In progress	A number of modules on the Learning Pool have been identified which are currently being validated – once approved they will be made mandatory for

Report		Recommendation		Rating	Officer Responsible	Target Date	Status	Management Comments
			Strategy and the Confidential Reporting (Whistle-blowing) Policy.					all staff and members.
6	Fraud Prevention and Detection	2	Members (in particular, the Audit and Governance Committee) should be provided with training to ensure they can effectively consider the effectiveness of the Authority's Anti-Fraud and Corruption Arrangements.	Medium	Head of Finance	June 2015		
6	Fraud Prevention and Detection	3	Staff whose duties might bring them into contact with situations where fraud or corruption is a potential risk (e.g. procurement, exchequer, benefits, planning) should be identified and targeted with specific training.	Medium	Head of Finance	March 2015	In progress	
6	Fraud Prevention and Detection	4	All new staff and Members should be made aware of their fraud prevention and detection responsibilities with training as appropriate as part of their induction programme.	Medium	Head of Legal and Support Services/Head of Finance/Human Resources Team Manager	December 2014 Revised Date: March 2015	OVERDUE In progress	As response to Fraud recommendation 1 above.
6	Fraud Prevention and Detection	6	The Confidential Reporting (Whistle blowing) Policy should be reviewed and up-dated as soon as possible.	Medium	Head of Legal and Support Services	November 2014 Revised Date: March 2015	OVERDUE In progress	The report has been drafted and will go to Audit and Governance on 25 March.
6	Fraud Prevention and Detection	7	The Council's strategic risk register and all individual service risk registers should be revisited to ensure that any potential risks regarding fraud or corruption are identified and that appropriate mitigating actions and controls are in place.	High	Head of Finance	January 2015 Revised Date: March 2015	OVERDUE In progress	
6	Fraud Prevention and Detection	9	Details regarding the management of fraud risks and any identified incidences of fraud should be included within the Council's Annual Governance Statement.	Medium	Head of Finance	September 2015		
6	Fraud Prevention and Detection	10	Quarterly reporting to the Corporate Leadership Team and the Audit and Governance Committee on how well the council is tackling fraud risks should be	High	Head of Finance	April 2015	In progress	

Report		Recommendation		Rating	Officer Responsible	Target Date	Status	Management Comments
			undertaken.					
7	Governance and Ethics	2	Governance and Ethics awareness training should be provided to all relevant officers.	Medium	Legal Services Team Manager	March 2015	In progress	Training with be delivered via the Learning Pool (as with fraud awareness).
9	Rent Accounting	1	The Senior Housing Officers should review all static arrears and arrears below £100 every 6 months to ensure adequate recovery action has been taken. All unsatisfactory recovery action should be followed up with the appropriate officer.	Medium	Senior Housing Officers	January 2015 Revised Date: March 2015	OVERDUE In progress	Original staff member allocated left abruptly. Replacement started in February with plan to review cases with less than £100 static arrears first by the end of February with full completion by the end of March.
9	Rent accounting	2	The Income and Systems Officer should monitor all accounts in credit on a quarterly basis, and report any accounts that have been written off and subsequent payments have been made to the Housing Management department to enable recovery action to recommence.	Medium	Income and Systems Officer	January 2015 Revised Date: March 2015	OVERDUE In progress	Report passed to Senior Housing Officer and is in process of being checked by two administrative officers with an expected completion by the end of March.

Internal Audit Performance: February 2015

Performance Measures:

Performance Measure	2014/15 Qtr 4 Target	Position as at 28.02.15	Comments
Delivery of Audit Plan – Key Financial Systems	100%	86%	The payroll system is the only key financial system audit that has not been completed yet. Work started in February and is expected to be completed by March 2015.
Delivery of Audit Plan – Non Key Financial Systems	100%	78%	Two audits are outstanding. Engagement planning has commenced and audit work is expected to be completed during March 2015.
Percentage of time spent on audit work	75%	79%	
Percentage of Client Satisfaction with the Internal Audit Service	100%	100%	
Compliance with the Internal Audit Standards	Full	Partial	See section 10 for update and Appendix E.
Compliance testing of completed recommendations	90%	100%	

Service Plan Actions:

Key Deliverables (Action)	Quarter 4 Milestone	Position as at 28.02.15
Review and update Health and Safety risk assessments to ensure risks to staff and customers are controlled.	Set action plan and timescale to deliver improvements where highlighted in reviews	Achieved No actions required
Undertake audits as per agreed Audit Plan.	Complete audits of 3 systems to enable the completion of the audit plan	On Target Three audits completed in the quarter, the three audits remaining to complete the plan are in progress.
Provide the Audit and Governance Committee with quarterly reports on the work and performance of internal audit.	Progress report to March Audit and Governance Committee	On Target
Achievement of the PSAIS	Completion of action plan targets	Failing – see section 10 and appendix E.
Produce the 2013/14 Annual Audit Opinion Report by 30 th June 2014.	No action for Quarter 4	-
Produce and have approved the 2015/16 Internal Audit Plan by 31 st March 2015.	Present the 2015/16 Internal Audit Plan to the March 2015 Audit and Governance Committee.	Achieved.

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 NWLDC 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	Implemented
16	Review and update the job descriptions and personal specifications for Internal Audit Staff.	30 th September 2014	On hold
17	Assess the collective skills, knowledge and competencies of the Internal Audit Team.	31 st December 2014	On hold
18	Develop a programme of continuing professional development	31 st December 2014	On hold
19	Update the Internal Audit manual.	31 st December 2014	On hold – process flowcharts are currently being produced.
20	Review the computer assisted audit techniques available and access whether they could be used to perform audit testing.	31 st December 2014	On hold
21	Undertake an assurance mapping exercise.	31 st January 2015	On hold
22	Produce an Internal Audit Strategy in conformance with the PSIAS.	28 th February 2015	Internal Audit Charter and Audit Plan each year. Internal Audit Strategy is not required by PSIAS therefore remove action.
23	Produce a risk based annual audit plan in conformance with the PSIAS.	28 th February 2015	Implemented
24	Undertake a fraud evaluation of the authority.	31 st March 2015	Fraud Prevention and Detection undertaken during 2014/15.

MANAGEMENT OF RISK

Corporate Risk Register							
Risk Area	Inherent Risk			Control Measures	Residual Risk		
	Impact	Likelihood	Rating		Impact	Likelihood	Rating
Finance & Budget	4	4	16	Monthly management reviews are performed of actual against budgets and forecast to the end of the year. Monthly reporting and challenging at CLT, and reported to Cabinet quarterly Sound policies and procedures are in place. Planning for the Future has been documented and is reviewed regularly. Internal and External audit of systems and accounts.	4	1	4
Resource Capacity & Capability	4	4	16	Advance planning will mitigate this risk; however should it occur diverting resources from other services, bringing in additional resources from other sources (e.g. Agencies, Consultants, Voluntary/Community sector etc.) would be activated. Market conditions are tested through recruitment processes. The Council offers a package of additional benefits to enhance the recruitment offer. Linked to the above, the Council has developed innovative partnering relationships with other sectors including the private sector to make posts uniquely attractive. Best Employee Experience is a programme to attract and develop the right skills. It is a programme developing the talent within the staff resource through secondments and tailored	2	2	4

Corporate Risk Register							
Risk Area	Inherent Risk			Control Measures	Residual Risk		
	Impact	Likelihood	Rating		Impact	Likelihood	Rating
				development programmes.			
Contract Management & Procurement	4	4	16	Corporate procurement staff and legal team to support where necessary on contract management. Policies and procedures are in place. Procurement Gateway Board oversees a procurement planning process. Training programme in place for staff.	3	2	6
Information Governance & Data Protection	4	4	16	Policies and procedures are in place. Corporate Governance is training is undertaken annually and includes information governance as appropriate to reflect changes in legislation. The Council has a dedicated SIRO. Corporate Governance Groups are in place to scrutinise impacts/issues arising.	4	1	4
Emergency Planning & Business Continuity arrangements	4	4	16	Business continuity plans have been documented, policies and procedures are in place, initial continuity plans are in place to allow access to the service through alternative mechanisms (Hermitage Leisure Centre)	4	1	4
Effective IT Systems & Procedures	4	4	16	Fully resilient environment in place with no single points of failure for core systems, other critical systems use cold standby equipment. New business services are being run in remote fully resilient data centres and existing systems are being progressively	3	2	6

Corporate Risk Register

Risk Area	Inherent Risk			Control Measures	Residual Risk		
	Impact	Likelihood	Rating		Impact	Likelihood	Rating
				migrated to these cloud computing centres. Data is backed up to a second disk unit at the council office and a third offsite at Hermitage Leisure Centre so there are multiple levels of protection. Improved business recovery arrangements have been implemented to minimise recovery time.			
Project & Programme Management	4	4	16	Progress is shared with regularly with CLT, experienced PRINCE 2 staff, transformation programme is continually reassessing its objectives	3	2	6
Governance, Policies & Procedures	4	4	16	Policies & procedures in place, governance processes are documented and in operation, ongoing assessments and reviews are performed.	4	1	4