

# NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

## AUDIT AND GOVERNANCE COMMITTEE - 25 MARCH 2015

Title of report	<b>2015/16 INTERNAL AUDIT ANNUAL PLAN</b>
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Purpose of report	To inform the committee of the proposed Internal Audit Programme of Work for 2015/16
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Council Priorities	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	Not Applicable
Equalities Impact Screening	Not Applicable
Human Rights	None
Transformational Government	Not Applicable
Consultees	Corporate Leadership Team
Background papers	<a href="#">Public Sector Internal Audit Standards</a> <a href="#">Internal Audit Charter</a>
Recommendations	<p><b>THAT THE COMMITTEE</b></p> <ol style="list-style-type: none"> <li><b>1. NOTES THIS REPORT AND COMMENTS AS APPROPRIATE.</b></li> <li><b>2. APPROVES THE 2015/16 INTERNAL AUDIT ANNUAL PLAN.</b></li> </ol>



# INTERNAL AUDIT SHARED SERVICE

**North West Leicestershire District Council**  
Internal Audit 2015/16 Annual Plan

## **1. INTRODUCTION**

- 1.1 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 of the control environment and, therefore, contribute to the achievement of the organisation's objectives.
- 1.2 This is assisted by Internal Audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems are designed and working, with consulting activities available to help to improve those systems and processes where necessary.
- 1.3 Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. Internal Audit endeavours to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.
- 1.4 The Three Lines of Defence Model (Appendix A) is a valuable framework that explains Internal Audit's role in assuring effective management of risk and its position in corporate governance. The first line of defence is formed by managers and staff who are responsible for identifying and managing risks as part of their accountability for achieving objectives. The second line of defence provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed by the first line. It also conducts monitoring to judge how effectively they are doing it, and helps ensure consistency of definitions and measurement of risk. The third line of defence is provided by internal audit. Its main roles are to ensure that the first two lines are operating effectively and advise how they could be improved.

## **2. INTERNAL AUDIT PLAN**

### **2.1 Overall Strategy**

- 2.1.1 The Internal Audit Charter sets out the purpose, authority and responsibilities of Internal Audit. The Charter:
- establishes Internal Audit's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the Audit and Governance Committee (at North West Leicestershire DC the Chief Audit Executive is the Senior Auditor);
  - authorises access to records, personnel and physical properties relevant to the performance of engagements; and
  - defines the scope of Internal Audit activities.
- 2.1.2 The key aim of the service is to provide an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. This

clearly helps North West Leicestershire DC in the achievement of its priorities, in particular in helping services to provide good value for money, as it brings a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The priorities for the Council are:

- providing council services that people feel provide good value for money;
- making the district a better place to invest, work and visit;
- improving the well being of people living in North West Leicestershire; and
- making people feel proud to be part of a greener district.

2.1.3 The key areas of work, supporting the aim of the service and to inform the Senior Auditor's annual opinion, are:

- risk management and control assurance;
- assessment of internal control effectiveness and efficiency;
- supporting the Audit and Governance Committee by demonstrating the importance of good governance and ensuring internal control improvements are delivered;
- supporting organisation change to improve processes and service performance;
- fostering an awareness of risk and control across the organisation; and
- the ability to respond to urgent events.

2.1.4 The risk-based Annual Audit Plan is produced by consulting with key stakeholders including senior management, reviewing risk registers, considering reports from external agencies (for example External Audit) and legislative updates, as well as exercising professional judgement. The outcomes from the Audit Plan underpin the Senior Auditor's Annual Opinion on the Council's internal control environment. This opinion feeds in to the Council's Annual Governance Statement.

2.1.5 The annual planning approach is to prioritise higher risk areas of the council's operations. This is balanced by the need to provide assurance over key financial systems that are fundamental to the successful operation of the Council. The plan needs to balance between core assurance that internal control, governance and risk management is functioning effectively and seeking value-added activity that contributes to the achievement of the Council's priorities.

## 2.2 Resources Available

2.2.1 The Audit Team who deliver the Audit Plan at North West Leicestershire District Council consists of a Senior Auditor (0.6 FTE) and an Internal Auditor (0.49 FTE). Table 1 shows a calculation of the available audit days for 2015/16.

**Table 1: Resources Available**

<b>Total Days</b>	<b>284</b>
Less leave/bank holidays/elections/sickness etc	50
Less training and development	8
<b>Available Days</b>	<b>226</b>
Management/PSIAS/Opinion/Plan/Reporting	34
Admin & Meetings	22
<b>Available Audit Days</b>	<b>170</b>

## 2.3 Internal Audit Annual Plan 2015/16

- 2.3.1 Audit planning is undertaken on an annual basis and audit coverage will be based on the following:
- the Council's risk register;
  - consultation with the Council's Leadership Team and management;
  - consultation with the Audit & Governance Committee; and
  - any requirements as agreed with External Audit (KPMG).
- 2.3.2 Audits are conducted using a risk based approach. This enables the finite resources of the team to be focussed on risk areas that have been identified which may prevent the achievement of the Council's aims and objectives.
- 2.3.3 The areas identified for audit review from the Council's risk register and from consultation with key stakeholders have been assessed in order to prioritise them. The auditable areas have been assessed based on the inherent risk within the area and the quality of controls in place. Other factors are considered such as previous audit work, age of systems and changes in staffing. The risk assessment is subjective and based on the professional judgement of the Senior Auditor, however it does provide a good indication of the areas requiring audit.
- 2.3.4 The proposed 2015/16 Annual Audit Plan is shown in Table 2 below and the detailed plan is shown in Appendix B. The Plan will be subject to ongoing review to ensure that it remains aligned with the Council's objectives and the risks identified by management in the risk registers. Any changes will be reported to the Corporate Leadership Team and the Audit and Governance Committee.

**Table 2: 2015/16 Annual Audit Plan**

Key Financial Systems	57
Assurance	27
Risk Based Internal Audits	61
Follow up Reviews	10
Advisory	5
Contingency	10
<b>Total Audit Days</b>	<b>170</b>

Three of the Council's key financial systems (Benefits, Council Tax and NNDR) are provided by the Leicestershire Revenues and Benefits Partnership, and therefore the audits will be undertaken by the internal auditors at Hinckley and Bosworth Borough Council (PwC).

No consultancy engagements have been agreed for 2015/16 therefore 5 days have been included to provide any advice requested from managers and staff.

The timings shown within the Internal Audit Annual Plan assume that the expected controls will be in place. A contingency has been included in the plan to allow for ad-hoc or fraud investigations. Due to the limited resources available, only 10 days have been included.

- 2.3.5 As the Audit Plan follows a risk based approach this means that not all areas of the Council will be audited during 2015/16. These areas are listed in Appendix C. The Senior Auditor does not consider that these areas currently present a significant risk to the achievement of the Council's aims and objectives and so will not be included in the 2015/16 plan at this time.

## 2.4 Limitations

- 2.4.1 The matters raised in the audit reports will only be those which are brought to our attention during the internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or all the improvements that may be required. Whilst every care will be taken to ensure that the information contained in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained therein. Our work does not provide absolute assurance that material errors, losses or fraud do not exist.

## 2.5 Review of the Available Resources

- 2.5.1 The key issue for consideration is whether the Internal Audit Plan has the appropriate high level coverage and is focussed on the key areas of risk facing the Council. The Audit and Governance Committee should ensure that there is adequate coverage to provide appropriate assurance. Key considerations:
- Is the risk appetite and resource allocation appropriate given the level of risk the council is currently facing?
  - Are there any high risk areas that are not being covered by the plan?
  - Is there an appropriate balance between assurance and advisory work to ensure the effective utilisation of Internal Audit expertise?
  - Is there sufficient contingency to enable a flexibility of response to changing needs?

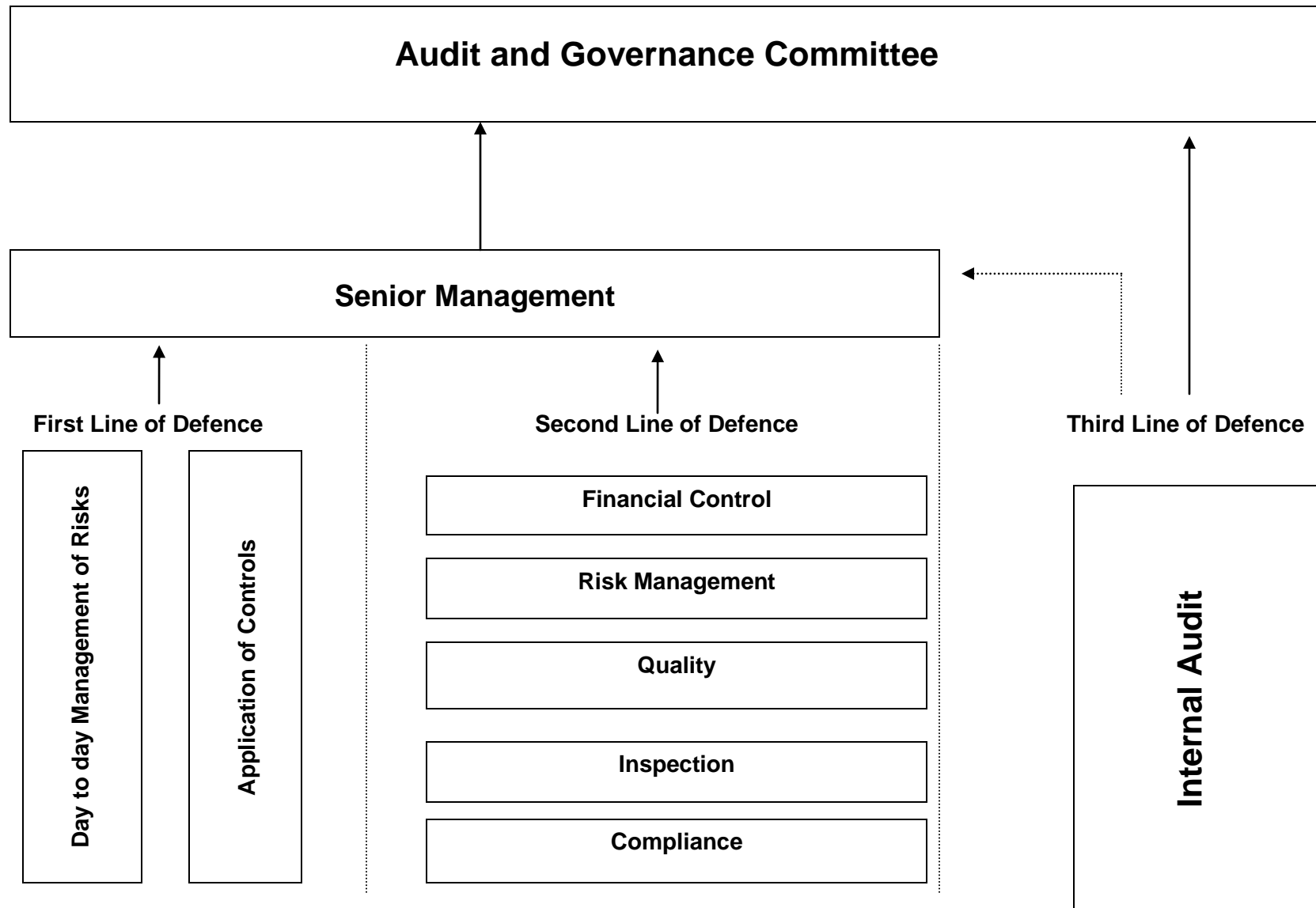
## 2.6 Conformance with Public Sector Internal Audit Standards (PSIAS)

- 2.6.1 Progress was made against the PSIAS Action Plan during 2014/15. This has given the Council a greater level of conformance with the Standards. There are eleven standards in addition to a Code of Ethics. CIPFA has produced a Local Government Application Note which includes a checklist to use for self assessments. This checklist includes over 330 items which are spread out across all of the Standards and the Code of Ethics. The checklist does not weight any item as having more importance than another therefore an overall view should be taken.
- 2.6.2 The Senior Auditor will be undertaking a thorough self-assessment for 2014/15 as part of the annual review of effectiveness of Internal Audit (report to June 2015 Audit and Governance Committee). The Senior Auditor currently estimates 85% full or partial conformance with the applicable questions. It should be noted that, due to the size and nature of the Internal Audit team, 100% full conformance with every item of the checklist is not considered appropriate. This is in line with other similar sized local government

internal audit services. Any significant areas of non conformance will be reported in the Internal Audit Annual Opinion report.

- 2.6.3 The main area of non conformance currently is because the Internal Audit Service has yet not had an external assessment (the Service has until April 2018 to do this). The Senior Auditor is currently looking into options for the external assessment with a view to its completion during early 2015/16. This will allow a new action plan to be produced which will ensure that the limited resources of the team are effectively focussed on achieving an appropriate level of conformance.

Three Lines of Defence





## Appendix B

### 2015/16 Internal Audit Plan

Audit Area	Type	Council Priority Area	Priority for Audit	Auditor	Quarter	Audit Days
Benefits	Key Financial System	1,2,3	High	PwC	-	-
Council Tax	Key Financial System	1,3	High	PwC	-	-
Cash and Bank	Key Financial System	1	High	In-house	2	6
Creditors	Key Financial System	1,2	High	In-house	4	8
Debtors	Key Financial System	1,2	High	In-house	4	8
Main Accounting	Key Financial System	1	High	In-house	4	8
NNDR	Key Financial System	1,2	High	PwC	-	-
Payroll	Key Financial System	1	High	In-house	4	8
Rent Accounting	Key Financial System	1,3	High	In-house	2	8
Treasury Management	Key Financial System	1	High	In-house	1	6
ICT Security	Key Financial System	1	High	In-house	2	5
Risk Management	Assurance	1	High	In-house	3	5
Governance and Ethics – New Members	Assurance	1	High	In-house	2	10
Performance Management	Assurance	1	High	In-house	3	6
Fraud	Assurance	1	High	In-house	2	6
Information Sharing and Data Protection	Risk Based	1	High	In - house	2	8
Housing - Other Capital Works/Non DHIP	Risk Based	1,2	High	In - house	1	8
Responsive Housing Repairs & Voids	Risk Based	1,2	High	In - house	2	8
Safeguarding	Risk Based	1,3	High	In - house	1	5
Disabled Facilities Grants	Risk Based	1,3	High	In - house	1	5
Leisure Centres	Risk Based	1,2,3	High	In - house	1	6
Building Control	Risk Based	1,3	High	In - house	1	6
Expenses/mileage claims	Risk Based	1	High	In - house	3	5
Green & Decent	Risk Based	1,4	High	In - house	2	5

DHIP	Risk Based	1,3	High	In - house	2	5
<b>TOTAL</b>						<b>145</b>

**Council Priority Areas**

Value for Money (1)

Business and Jobs (2)

Homes and Communities (3)

Green Footprints (4)

**2015/16 Internal Audit Plan – Non Coverage**

<b>Audit Area</b>	<b>Type</b>	<b>Priority for Audit</b>
Planning Policy/Local Plan	Risk Based	Medium
Partnerships	Risk Based	Medium
Records Management	Risk Based	Medium
Project Management	Risk Based	Medium
Anti-Social Behaviour	Risk Based	Medium
Planning Enforcement	Risk Based	Medium
S106 Agreements	Risk Based	Medium
CCTV	Risk Based	Medium
Economic Development	Projects	Medium
Human Resources	Projects	Medium
Business Continuity	Projects	Medium
Planned Housing Maintenance	Risk Based	Medium
Vulnerable People	Risk Based	Medium
Asset Management (housing stock)	Risk Based	Medium
Asset Management (council buildings)	Risk Based	Medium
Emergency Planning	Risk Based	Medium
Car parking and enforcement	Risk Based	Low
Equalities	Risk Based	Low
Trade Refuse	Risk Based	Low
Recycling	Risk Based	Low
Ashby TIC	Risk Based	Low
LLPG	Risk Based	Low
Commercial Rents	Risk Based	Low
Member Allowances	Risk Based	Low
Complaints Management	Risk Based	Low
Environmental Health	Risk Based	Low
Food Safety	Risk Based	Low
Licensing	Risk Based	Low
Air Quality	Risk Based	Low
Planning	Risk Based	Low
Land Charges	Risk Based	Low
Health & Safety	Risk Based	Low
Older Persons	Risk Based	Low
Garages	Risk Based	Low
Housing Options/Homelessness	Risk Based	Low
Affordable Housing	Risk Based	Low
Tenant Allocations/Choice Based Letting	Risk Based	Low
Business Rates Retention	Risk Based	Low
Inventory	Risk Based	Low