



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council
Internal Audit Progress Report: February 2016

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 29 February 2016.

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 2015, 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 Plan Update

- 6.1 A progress report against the 2015/16 Internal Audit plan is documented in Appendix A. The Internal Audit plan needs to be flexible in order to reflect current issues and resource requirements. There have been a number of changes to the Internal Audit plan approved in March 2015 and details are documented in the 'comments' column in Appendix A.
- 6.2 Two final reports have been issued since the last update report and two audits are in progress. An Executive Summary of the two final reports issued is documented in Appendix B. The Senior Auditor does not consider it necessary to draw attention to any specific control weaknesses at this time.

7 Internal Audit Recommendations

- 7.1 Internal Audit monitors and follows up all medium and high risk recommendations. Appendix C lists overdue recommendations along with a status update. During February Internal Audit followed up progress against the recommendations made following the Leisure Centre Audits carried out earlier in the year. It was pleasing to note that the majority had been implemented satisfactorily however there were still some minor issues with the completion of cashing up forms. Officers will be reminded again to take care and complete all information on the forms. Internal Audit will repeat the follow up work later in the year to confirm this has been effective.
- 7.2 All outstanding recommendations i.e. those not yet due, are included in Appendix D for information.

8 Internal Audit Performance Indicators

- 8.1 Performance information for Internal Audit in relation to its team plan actions and performance indicators is documented in Appendix E.

9 Information Governance Health Check Update

- 9.1 Internal Audit had identified Information Management as a risk as the Council had self-reported a number of breaches to the Information Commissions Office. As a result it was included in the 2015/16 Annual Audit Plan. The Corporate Leadership Team was also concerned and the Senior Auditor agreed with the Monitoring Officer that, given the recent breaches, it would be more useful for the Council to proactively engage experts to undertake a health check of its information management procedures. The Monitoring Officer approached the Senior Auditor at an early stage in the process which meant that internal audit control objectives could be included in the review. This enabled Internal Audit to place reliance on this source of assurance and to avoid duplication of effort.

- 9.2 The health check concluded that the Council shows a good awareness of the issues it faces in meeting compliance requirements and has demonstrated a desire to move onwards past this towards best practice. Recommendations were made around i) enhancing existing processes to facilitate full compliance with the Data Protection Act and Freedom Of Information Act and reduce the risk of any further data breaches, and ii) introducing a number of new processes which will move NWLDC towards best practice in its management of information.
- 9.3 A detailed action plan has been produced to address the recommendations and this is being monitored by the Corporate Leadership Team. Whilst Internal Audit have not formally tested progress against all of the recommendations we have received update reports which are consistent with corporate developments and have no concerns at this point.

2015/16 Audit Plan Progress: February 2016 (In-house Audit Team Audits)

| Audit Area (report number) | Type | Planned Days | Actual Days | Status | Assurance Level | Recommendations | | | | Comments |
|---|----------------------|-----------------|----------------|-------------------------|--------------------|-----------------|---|---|---|--|
| | | | | | | H | M | L | A | |
| Cash and Bank (10) | Key Financial System | 6 | 6 | Final Report Issued | Grade 2 | 2 | - | - | - | |
| Creditors (8) | Key Financial System | 8 | 6.3 | Final Report Issued | Grade 1 | - | - | 1 | - | |
| Debtors | Key Financial System | 8 | - | Scheduled for Quarter 4 | | | | | | |
| Main Accounting (9) | Key Financial System | 8 | 5 | Final Report Issued | Grade 1 | - | - | - | - | |
| HR and Payroll | Key Financial System | 10 | 4 | In progress | | | | | | |
| Rent Accounting (7) | Key Financial System | 8 | 8.4 | Final Report Issued | Grade 2 | 2 | - | 1 | - | |
| Treasury Management (1) | Key Financial System | 6 | 4 | Final Report Issued | Grade 1 | - | - | - | 1 | |
| ICT Key Controls | Key Financial System | 5 | 1 | In progress | | | | | | This work will take the form of following up recommendations from the LCC 2014/15 audit and a focused audit testing high risk objective. |
| Risk Management | Assurance | 5 | - | Remove from plan | | | | | | Will keep under review during 2016/17. |
| Governance and Ethics – New Members (6) | Assurance | 10 | 6.5 | Final Report Issued | Grade 2 | 3 | 2 | - | - | |
| Performance Management (4) | Assurance | 6 | 10 | Final Report Issued | Grade 1 | - | - | - | - | |
| Fraud | Assurance | 6 | - | Removed from plan. | | | | | | Will keep under review during 2016/17. |
| Information Sharing and Data Protection | Risk Based | 8 | - | Removed from plan | | | | | | Assurance will be taken from Information Governance Health Check see section 9 of report. |
| Housing - Other Capital Works/Non DHIP | Risk Based | 8 | - | Removed from plan | | | | | | Removed from plan as Senior Auditor analysis of the remaining capital work does not present a significant risk at this time. |
| Responsive Housing | Risk Based | 8 | - | Removed from plan | | | | | | This has been put on to |

| Audit Area (report number) | Type | Planned Days | Actual Days | Status | Assurance Level | Recommendations | | | | Comments |
|---------------------------------------|-------------------------------|-----------------|----------------|---|--------------------|-----------------|---|---|---|---|
| | | | | | | H | M | L | A | |
| Repairs & Voids | | | | | | | | | | 2016/16 plan as service review underway. |
| Safeguarding (11) | Risk Based | 5 | 8 | Final Report Issued | Grade 2 | 2 | 4 | - | - | |
| Disabled Facilities Grants (advisory) | Risk Based | 5 | 6.5 | Memo issued | N/A | | | | | Memo issued rather than formal report to reflect transition status of service. A formal audit may be carried out later in the year. |
| Leisure Centres (2 and 3) | Risk Based | 12 | 23 | Final Reports Issued: Hood Park Leisure Centre | Grade 2 | 3 | 1 | - | 1 | Planned days exceeded due to sickness issues, absences over summer and some additional testing. |
| | | | | Hermitage Leisure Centre | Grade 2 | 5 | 1 | - | 1 | |
| Building Control (5) | Risk Based | 6 | 8.5 | Final Report Issued | Grade 2 | 4 | - | - | - | |
| Expenses/mileage claims | Risk Based | 5 | - | Removed from plan | | | | | | No longer required. New system is not being implemented. |
| Green & Decent (advisory) | Risk Based | 5 | 0.5 | Advisory | | | | | | Given the nature of the project this is likely to be an advisory piece of work. |
| DHIP | Risk Based | 5 | 10 | In progress | | | | | | Planned days exceeded due to time involved in detailed testing. |
| Disabled Facilities Grant (audit) | Additional Audit | 6 | - | Scheduled for Quarter 4 | | | | | | The need for this audit remains under review. |
| ICT User Account Administration | Additional Audit (Key system) | 5 | 0.5 | | | | | | | Requested by ICT Team Manager. |

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** Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
- M** **Medium Priority** Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
- L** **Low Priority** Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
- A** **Advisory** Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B

EXECUTIVE SUMMARY OF IN HOUSE INTERNAL AUDIT FINAL REPORTS ISSUED BETWEEN DECEMBER 2015 AND FEBRUARY 2016

| Report | Portfolio Holder | Head of Service & Team Manager | Assurance Level | Areas for Improvement | Recommendations | | | |
|--------------------|--------------------|---|-----------------|--|-----------------|---|---|---|
| | | | | | H | M | L | A |
| (10) Cash and Bank | Corporate | Head of Finance Financial Services Team Manager | Grade 2 | Ensuring there are sufficient resources to complete key tasks. Performing the monthly bank reconciliation within a reasonable time period after month end. | 2 | - | - | - |
| (11) Safeguarding | Community Services | Head of Community Services Stronger and Safer Team Manager | Grade 2 | The identification and management of risks relating to Safeguarding. Monitoring and follow up of attendance and completion of training. A consistent approach to filing and recording key information about cases. Clarification around reporting requirements for senior management and Members. Updating the Disclosure and Barring Service Policy (DBS). Verifying additional key information about leisure centre block bookings. | 2 | 4 | - | - |

Recommendations Tracker – Overdue Recommendations

| Report | | Recommendation | | Rating | Officer Responsible | Target Date | Status | Management Comments |
|-----------------|--------------------------------|----------------|--|--------|---|--|--|--|
| 2014/15 Reports | | | | | | | | |
| 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 Revised Date: Sep 2016 | In progress | Head of Finance plans to arrange for external auditors to deliver training. |
| LCC | ICT Key Controls Audit | 2 | ICT Management should give consideration to producing a detailed DR plan and process. Once this has been completed consideration should be given to undertaking a full end to end DR test to ensure that data and systems can be | High | Head of Finance/ICT Team Manager | December 2015 Revised Date: February 2016 | In progress | DR plan updated and testing planned for after email upgrade. |
| LCC | ICT Key Controls Audit | 6 | Consideration should be given to formalising systems ownership for all applications in use at NWLDC and the associated roles and responsibilities. This should include the:- Senior Management Owner (Usually at Assistant Director Level) Name of the Systems Owner Name of the Deputy Systems Owner Main Systems Administrator | Medium | Head of Finance/ICT Team Manager | September 2015 Revised March 2016 | In progress | In order to implement this recommendation fully this has become part of a bigger project and will take longer than originally planned. |
| 2&3 | Leisure Centres | 2 | Senior Management should remind all staff with cash collection responsibilities of the need for accuracy in all aspects of their work, and to closely follow all procedures. | High | Commercial Manager and Facilities Manager | October 2015 | Tested in February however quite a high number of forms not being fully completed – will follow up again during 2016/17. | Issue to be raised with officers again. |

| Report | | Recommendation | | Rating | Officer Responsible | Target Date | Status | Management Comments |
|--------|-----------------|----------------|---|--------|-----------------------------|---------------|-------------|---|
| 7 | Rent Accounting | 1 | Reconciliations should be completed in a timely fashion. | High | Finance Systems Team Leader | November 2015 | In progress | This has been delayed by information not being received from Exchequer Services due to staffing issues. |
| 7 | Rent Accounting | 2 | Monthly reconciliations between the housing rents system and the cash receipting system should be reviewed by an appropriate officer who signs and dates the reconciliations. The reconciliation procedure notes should be updated to reflect this. | High | Finance Systems Team Leader | November 2015 | In progress | This will be implemented once the reconciliations are caught up with. |

Recommendations Tracker – Outstanding Recommendations

| Report | | Recommendation | | Rating | Officer Responsible | Target Date | Senior Auditor Comments |
|-----------------|-----------------------------|----------------|--|--------|------------------------------|-----------------------|--|
| 2014/15 Reports | | | | | | | |
| 14 | Human Resources and Payroll | 3 | HR staff should ensure that all personnel files are securely held whether in paper or electronic format. | High | Human Resources Team Manager | Immediate and ongoing | Compliance testing is being undertaken as part of the 2015/16 HR and Payroll audit which is currently in progress. |
| 14 | Human Resources and Payroll | 4 | All new employees should complete the starter form that should then be held on their HR file. | High | Human Resources Team Manager | Immediate and ongoing | As above |
| 14 | Human Resources and Payroll | 5 | HR should verify the Offer Letter to the payslip prior to payment for all starters. The verification should be completed by a person different to the originator of the data input and a record maintained. | High | Human Resources Team Manager | Immediate and ongoing | As above |
| 14 | Human Resources and Payroll | 6 | All new starters should have their identity verified and recorded as such. | High | Human Resources Team Manager | Immediate and ongoing | As above |
| 14 | Human Resources and Payroll | 7 | Team managers should ensure that all staff leaving NWLDC complete a leaver form and this should be provided to HR in sufficient time for them to make accurate final payments. The leaver form should be held on the HR file together with supporting documentation. | High | Team Managers | Immediate and ongoing | As above |
| 14 | Human Resources and Payroll | 8 | HR should verify the details from the Leaver Form to the payslip prior to payment for all leavers. The verification should be completed by a person different to the originator of the data input and a record maintained. | High | Human Resources Team Manager | Immediate and ongoing | As above |
| 14 | Human Resources and Payroll | 9 | The Human Resources Team Manager should review the functionality made available to Managers and staff in the self serve system to ensure that appropriate 'training notes' are issued prior to full implementation of the system. | High | Human Resources Team Manager | Immediate and ongoing | As above |
| 14 | Human | 10 | When an employee starts to receive | High | Human Resources | Immediate and | As above |

| Report | | Recommendation | | Rating | Officer Responsible | Target Date | Senior Auditor Comments |
|--------|-----------------------------|----------------|---|--------|----------------------------------|-----------------------------|-------------------------------|
| | Resources and Payroll | | maternity benefits HR should check whether essential car allowance is also in payment and make the appropriate adjustment to avoid an overpayment. | | Team Manager | ongoing | |
| 14 | Human Resources and Payroll | 11 | The Human Resources Team Manager should periodically circulate to Chief Officers the current establishment list for their area of responsibility to enable verification of the staffing structure and current employees. | High | Human Resources Team Manager | Immediate and ongoing | As above |
| 14 | Human Resources and Payroll | 12 | The HR database should be checked to ensure that the correct coding has been entered for the relevant service area and that the manager shown is correct as the self service authorisation system will not operate correctly with incorrect managers shown. | High | Human Resources Team Manager | Part of project | As above |
| 14 | Human Resources and Payroll | 13 | A schedule of under and overpayments generated by the payroll process should be compiled with the proposals for full recovery of the overpayment that will be updated with repayment transactions as they occur. | High | Human Resources Team Manager | Immediate and ongoing | As above |
| 14 | Human Resources and Payroll | 14 | Bulk amendments, such as increments, should be subject to sample testing of the resulting payslips and all other amendments verified to the payslip. The verification should be completed by a person different to the originator of the data input and a record maintained. | High | Human Resources Team Manager | June 2015 | As above |
| 15 | Aids and Adaptations | 3 | The longstanding arrangement currently in place for the provision of goods and services for adaptations through Leicestershire County Council should be formalised in accordance with the council's procurement procedures. | High | Planned Investment Team Manager | 31 st March 2016 | Testing scheduled April 2016. |
| LCC | ICT Key Controls Audit | 7 | Consideration should be given to developing and rolling out key ICT related policies. | Medium | Head of Finance/ICT Team Manager | March 2016 | Testing scheduled April 2016 |
| | | 16 | Consideration should be given to reviewing the password configurations within key | Medium | Head of Finance/ICT Team Manager | February 2016 | Testing scheduled March 2016 |

| Report | | Recommendation | | Rating | Officer Responsible | Target Date | Senior Auditor Comments |
|------------------------|---|----------------|--|--------|---|------------------------|--------------------------------|
| | | | applications to either ensure that they comply with best practice or that a conscious decision has been made to accept any residual risk of non-compliance (once other controls such as lock out settings have also been taken into account) | | | | |
| 2015/16 Reports | | | | | | | |
| 5 | Building Control | 4 | Senior Management should arrange for suitable secure fire resistant storage to be made available for the storage of Building Control application files. | High | Building Control and Land Charges Team Manager | Q1 2016 financial year | Testing scheduled June 2016 |
| 6 | Governance and Ethics – Member Training | 1 | Training materials should be available on the intranet for Members to refer back to. | Medium | Democratic Services Officers | Immediate and Ongoing | Testing scheduled March 2016 |
| | | 3 | Promote the upcoming Planning Forum training events to encourage take-up and engagement. | High | Head of Planning and Regeneration | November 2015 | Testing scheduled March 2016 |
| | | 5 | Democratic Services chase up attendance records from officers delivering compulsory training if it is not provided in a timely fashion so that they can make appropriate alternative arrangements. | High | Democratic Services Officers | Immediate and Ongoing | Testing scheduled March 2016 |
| 10 | Cash and Bank | 1 | Ensure that there are sufficient resources to complete key tasks. | High | Financial Services Team Manager | March 2015 | Testing scheduled April 2016 |
| | | 2 | Reconciliations are brought up to date as soon as staffing issues allow. | High | Financial Services Team Manager | March 2015 | Testing scheduled April 2016 |
| 11 | Safeguarding | 1 | The Corporate Risk Scrutiny Group should consider risks facing the Council in relation to Safeguarding and whether these need to be included in the corporate risk register and/or appropriate service risk registers. | High | Chair of Corporate Risk Scrutiny Group (Director of Services) | March 2016 | Testing scheduled May 2016 |
| | | 2 | Attendance at training events and completion of mandatory training modules should be monitored. Non attendance or non completion should be followed up so that alternative arrangements can be made | Medium | Senior HR Adviser (L1) Designated Safeguarding Officers (DSO) Group (L2-9) | September 2016 | Testing scheduled October 2016 |

| Report | | Recommendation | | Rating | Officer Responsible | Target Date | Senior Auditor Comments |
|--------|--|----------------|---|--------|---|---------------|-----------------------------|
| | | | as necessary. | | | | |
| | | 3 | The approach for receiving and dealing with concerns and referrals should be reviewed and documented and made available to all DSOs to follow, including data retention and security. If appropriate this procedure should also be made available to officers who make direct referrals to Adult or Children's Social Care. As part of reviewing the approach consideration should be given as to what information should be recorded and where, so that, if required, evidence can be provided that referrals are dealt with promptly and appropriately and are subject to a robust decision process. This is particularly important if the decision is not to make any onward referral. | High | Stronger and Safer Communities Team Manager and the DSO Group | May 2016 | Testing scheduled July 2016 |
| | | 4 | Reporting requirements should be agreed with senior management with consideration given to reporting to Members. | Medium | Head of Community Services | June 2016 | Testing scheduled July 2016 |
| | | 5 | Review and update the DBS policy in order to meet the Code of Practice requirements. | Medium | Senior HR Adviser | February 2016 | Testing scheduled May 2016 |
| | | 6 | Review the conditions of hire and amend them to obtain information regarding the sports association/governing body the hirer is a member of. Reasonable, further checks, should then be performed to confirm the appropriateness of the booking. | Medium | Leisure Services Team Manager | March 2016 | Testing scheduled May 2016 |

Internal Audit Performance: November 2015

Performance Measures:

| Performance Measure | 2015/16 Target | Position as at 29.02.16 | Comments |
|---|----------------|-----------------------------------|--|
| Delivery of 2015/16 Audit Plan – Key Financial Systems | 100% | 63% | Three key systems outstanding - one in progress and two due to commence in March. |
| Delivery of 2015/16 Audit Plan – Non Key Financial Systems | 100% | 86% | |
| Percentage of time spent on audit work | 80% | 83% | |
| Percentage of Client Satisfaction with the Internal Audit Service | 100% | 100% | Based on 6 responses so far this year. Survey link is sent out at end of each quarter. |
| Compliance with the Internal Audit Standards | Full | No significant gaps in compliance | |
| Compliance testing of completed recommendations | 90% | 100% | |

Service Plan Actions:

| Key Deliverables (Action) | Quarter 4 Milestone | Position as at 29.02.16 |
|--|--|--|
| 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 | On target – no actions. |
| Undertake audits as per agreed Audit Plan. | Complete audits of 4 systems to enable the completion of the audit plan | Temporary resources used in Quarter 3 which allowed us to catch up on audit plan. |
| 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 | External assessment of compliance with PSIAS | On target |
| Annual Audit Opinion delivered by 30 th June 2015 deadline. | N/A | Completed in June 2015. |
| Produce and have approved the 2016/17 Internal Audit Plan by 31 st March 2016. | No action | Plan circulated to Corporate Management Team for comment. Plan is ready to take to March Audit and Governance Committee. |