



# INTERNAL AUDIT SHARED SERVICE

**North West Leicestershire District Council**  
Internal Audit Progress Report: May 2016



## **1. Introduction**

- 1.1 The assurances received through the Internal Audit programme are 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 31 May 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 of the control environment, and therefore contribute to the achievement of the organisation's objectives.
- 2.2 Internal Audit provides 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. One part time member of the Internal Audit team works in Housing Business Support 1.5 days per week. The impairment is managed by the auditor having no involvement in the audit of this service area.

## **6 Internal Audit Plan Update**

- 6.1 A progress report against the 2016/17 Internal Audit plan is documented in Appendix A. The Internal Audit plan needs to be flexible in order to respond to current risks and resource requirements. There have been a small number of changes to the Internal Audit plan approved in March 2016 and details are documented in the 'comments' column in Appendix A.
- 6.2 Three final reports have been issued since the last update report, two audits are at the report drafting stage and one is in progress. Internal Audit resources have been used in April and May to complete audits from the 2015/16 audit plan as well as working on audits from the 2016/17 plan.
- 6.3 The executive summaries of the three final reports issued are included 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. Internal Audit does not have any significant concerns at this time.
- 7.2 Internal Audit carried out follow up testing at the Leisure Centres focussing on the cashing up arrangements and completion of cashing up forms. Weaknesses had been identified during the original audit in August 2015 and during follow up in January 2016 (as reported to December 2015 and March 2016 Audit and Governance Committee). Internal Audit can now conclude that this recommendation has been adequately implemented as testing results were satisfactory.
- 7.3 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.

## 2016/17 AUDIT PLAN PROGRESS: MAY 2016

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						H	M	L	A	
Cash and Bank	Key Financial System	6	-	Schedule for Q4						
Creditors	Key Financial System	6	-	Schedule for Q4						
Sundry Debtors	Key Financial System	6	-	Scheduled for Q4						
HR and Payroll	Key Financial System	10	-	Scheduled for Q3						
Main Accounting	Key Financial System	5	-	Scheduled for Q4						
Rent Accounting	Key Financial System	6	-	Scheduled for Q2						
Treasury Management	Key Financial System	4	-	Scheduled for Q2						
ICT Key Controls	Key Financial System	-	-	Scheduled for Q3						This audit will be undertaken by ICT audit specialists.
Car parking and enforcement	Risk Based	7	-	Scheduled for Q2						
Enterprising NWLDC Grants	Risk Based	4	7	Report drafting						Actual days greater than planned due to broader scope.
Fuel servicing and repair contracts	Risk Based	10	-	Scheduled for Q3/Q4						
Housing Management - Mobile Working	Risk Based	7	-	Scheduled for Q2						
Housing – In House Repairs	Risk Based	10	-	Scheduled for Q4						
Planning Enforcement	Risk Based	7	-	Scheduled for Q4						
Section 106	Risk Based	10	-	Scheduled for Q3/Q4						
Trade Refuse and Recycling	Risk Based	10	6	In progress						
Welfare Provision	Risk Based	3	0.5	Engagement Planning						
Asset Performance Calculator – NPV	Advisory	4	-	As required						
CCTV	Advisory	4	-	Scheduled for Q4						
Coalville Project	Advisory	5	-	As required						
New financial systems	Advisory	5	-	As required						

**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:**

<b>H</b>	<b>High Priority</b> Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>M</b>	<b>Medium Priority</b> Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>L</b>	<b>Low Priority</b> Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>A</b>	<b>Advisory</b> 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 MARCH 2016 AND MAY 2016

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Areas for Improvement	Recommendations			
					H	M	L	A
2015/16 Audits								
13 – ICT User Accounts	Corporate Portfolio Holder	Director of Resources ICT Team Manager and HR Manager	Grade 2	The arrangements for ensuring that ICT are notified of leavers and, once notified, their user accounts are appropriately deactivated and deleted.	4	-	-	-
14 – HR and Payroll	Leader	Director of Resources HR Manager	Grade 2	Procedure notes for the monthly process for overtime and timesheets.  Checking all key elements of the first and final payslips for employees prior to payment.  Ensuring appropriate adjustments are made to essential car users on maternity leave to avoid overpayments.	4	3	1	-
15 – Sundry Debtors	Corporate Portfolio Holder	Director of Resources Financial Services Team Manager	Grade 1	The approach to recovery action once the automatic reminders stages have been completed.	-	1	-	-

See Appendix A for Key.

## 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	Not implemented	Member training is being reviewed by the Director of Resources. Audit and Governance Committee Members to receive training on role and functions of an Audit Committee following new/re appointments in May 2016.
2015/16 Reports								
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  Revised date: June 2016	Not implemented	This has not been implemented yet. Now that the reconciliation completion process has been brought up to date this will be implemented immediately.



## Recommendations Tracker – Outstanding Recommendations

Report		Recommendation		Rating	Officer Responsible	Target Date	Senior Auditor Comments
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
11	Safeguarding	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 as necessary.	Medium	Senior HR Adviser (L1) Designated Safeguarding Officers (DSO) Group (L2-9)	September 2016	Testing scheduled October 2016
		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
13	ICT User Accounts	1	The ICT Team Manager should remind all managers of the need to complete the ICT leavers form on the intranet. This is particularly important for non permanent staff.	High	ICT Team Manager	May 2016	Testing scheduled June 2016

Report		Recommendation		Rating	Officer Responsible	Target Date	Senior Auditor Comments
		2	The ICT Team Manager should consider amending the on-line ICT new user form to cater for the different types of staff requiring access to the network.	High	ICT Team Manager	May 2016	Testing scheduled June 2016
		3	The ICT Team Manager should ensure that all leaver notification emails from HR are acted upon.	High	ICT Team Manager	August 2016	Testing scheduled June 2016
		4	The HR Manager should ensure that the names of all leavers that they are aware of are passed to ICT.	High	HR Manager	Immediate	Testing scheduled June 2016
14	HR and Payroll	1	The monthly process for collecting and collating paper overtime forms and timesheet spreadsheets from across the Council to send to the payroll provider should be documented.	Medium	Exchequer Services Assistant	June 2016	Testing scheduled September 2016
		2	Following confirmation from the payroll provider as to their application of the automatic enrolment rules, consideration should be given as to what action should be taken for existing employees who may be affected.	Medium	HR Manager	August 2016	Testing scheduled September 2016
		3	HR should confirm that all key elements of a starter's first payslip have been set up correctly, including pension contribution rates if applicable.	High	HR Manager	Immediate	Testing scheduled September 2016
		4	HR should confirm with the payroll provider the method that they should be using to calculate outstanding holiday pay due for all leavers.	High	HR Manager	Immediate	Testing scheduled September 2016
		5	HR and Exchequer Services should confirm that all key elements of a leaver's final payslip have been calculated correctly and processed using the correct element code.	High	HR Manager and Financial Services Team Manager	Immediate	Testing scheduled September 2016
		6	When an employee starts to receive maternity benefits HR should check whether essential car allowance is also in payment and make the appropriate adjustment to avoid an overpayment.	High	HR Manager	Immediate	Testing scheduled September 2016

Report		Recommendation		Rating	Officer Responsible	Target Date	Senior Auditor Comments
		7	Consideration should be given as to what action should be taken with regards to recent maternity overpayments i.e. whether they should be recovered.	Medium	HR Manager	June 2016	Testing scheduled September 2016
15	Sundry Debtors	1	Invoices that have been at the investigation stage for some time (including those relating to previous years) should be reviewed and prioritised so that appropriate action taken.	Medium	Senior Exchequer Services Officer	September 2016	Testing scheduled for October 2016

**Appendix E**

### **Internal Audit Performance: May 2016**

**Performance Measures:**

<b>Performance Measure</b>	<b>2016/17 Quarter 1 Target</b>	<b>Position as at 31.05.16</b>	<b>Comments</b>
Delivery of 2016/17 Audit Plan	20%	6%	Two 2016/17 audits in progress, one at report drafting stage. 2015/16 audits have been completed during April and May 2016.
Percentage of time spent on audit work	80%	89%	
Percentage of Client Satisfaction with the Internal Audit Service	100%	-	Surveys sent out at the end of each quarter therefore will be sent out in July 2016.
Compliance with the Internal Audit Standards	Full	No significant gaps in compliance	
Compliance testing of completed recommendations	90%	100%	

### **Service Plan Actions:**

<b>Key Deliverables (Action)</b>	<b>Quarter 1 Milestone</b>	<b>Position as at 31.05.16</b>
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	Health and Safety risk assessment review in progress.
Undertake audits as per agreed Audit Plan.	Complete 20% of audit plan.	On track, two audits will start in June.
Provide the Audit and Governance Committee with quarterly reports on the work and performance of internal audit.	Progress report to June Audit and Governance Committee	On target
Achievement of the PSAIS	Internal review of effectiveness of Internal Audit reported to June A&GC.	On target
Annual Audit Opinion delivered by 30 <sup>th</sup> June 2016 deadline.	Prepare Annual Report for presentation to June A&GC.	On target
Risk based annual audit plan for 2017/18 approved by 31 March 2017.	No action	