

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 13 JULY 2016

Title of report	INTERNAL AUDIT ANNUAL REPORT 2015/16
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Purpose of report	<p>To present the annual internal audit opinion on the overall adequacy and efficiency of the Council's framework of governance, risk management and control.</p> <p>This is required by the Public Sector Internal Audit Standards and should be used to inform the Annual Governance Statement.</p>
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	A negative internal audit opinion would cast doubt on the Council's governance arrangements and could impact on the audit of the Statement of Accounts.
Equalities Impact Assessment	N/A
Human Rights	N/A
Transformational Government	No direct implications.
Consultees	<p>Interim Director of Resources</p> <p>Financial Planning Manager (Deputy Section 151)</p>
Background papers	Public Sector Internal Audit Standards
Recommendations	THAT THE COMMITTEE NOTES THIS REPORT AND COMMENTS AS APPROPRIATE.

1. INTRODUCTION

- 1.1 This is the annual report of the Chief Audit Executive (Senior Auditor) as required by the Public Sector Internal Audit Standards (PSIAS). It covers the period 1 April 2015 to 31 March 2016.
- 1.2 This report includes the Senior Auditor's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 1.3 This report also includes:
 - A summary of internal audit work carried out during 2015/16 which supports the opinion.
 - Issues relevant to the preparation of the Annual Governance Statement.
 - Internal Audit's Quality Assurance and Improvement Programme (QAIP).
 - A statement on conformance with the Public Sector Internal Audit Standards.

2. CHIEF AUDIT EXECUTIVE (SENIOR AUDITOR) OPINION 2015/16

- 2.1 I am satisfied that sufficient internal audit work has been undertaken to allow me to give an opinion on the adequacy and effectiveness of the framework of governance, risk management and control. In giving this opinion it should be noted that assurance cannot be absolute and the most that Internal Audit can provide is reasonable assurance that there are no major weaknesses in the system of internal control.
- 2.2 For the 12 months ended 31 March 2016, I have formed the opinion that the Council's overall internal control arrangements are a **Grade 2**. In line with our Internal Audit opinion grade definitions, this means that I consider that the internal control arrangements require improvement in some areas.
- 2.3 My opinion is based on the following:
 - All internal audit work undertaken during the year.
 - Assurance provided by the auditors of the Leicestershire Revenues and Benefits Partnership.
 - Follow up audit work in respect of audit recommendations.
 - My knowledge of the Council's governance and risk management structure and processes.

3. SUMMARY OF INTERNAL AUDIT WORK DURING 2015/16

- 3.1 The risk based internal audit plan for 2015/16 was presented and approved by the Audit and Governance Committee on 25 March 2015. The plan was developed to provide assurance on the adequacy and effectiveness of internal controls across a range of financial and organisational areas that were identified as part of the risk based planning process. Progress against the 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 opinions given in 2015/16 is detailed in Table 1 below. The opinion for individual audits is included in Appendix A for information.

Table 1

Audit Opinion	Number
Grade 1 – Internal controls are adequate in all important aspects	5
Grade 2 – Internal controls require improvement in some areas	9
Grade 3 – Internal controls require significant improvement	0
Grade 4 – Internal controls are inadequate in all important aspects	0
Total	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. For 2015/16 the internal audit service at the Partnership was provided by PwC. They reported their findings at the Leicestershire Partnership Revenues and Benefits Joint Committee held on 28th January 2016. I have reviewed their report which included two areas of concern relating to Council Tax:

- No detailed procedure notes available for staff working in Council Tax.
- Discounts and exemptions are not always reviewed within an appropriate time frame and evidence to support them is not always held on file.

Appropriate recommendations have been made to address the weaknesses which have been accepted by management.

- 3.4 Internal Audit follow up progress against recommendations in line with the timescales agreed at the time of issuing reports. The Audit and Governance Committee is updated on the Council's progress against the recommendations as part of the quarterly Internal Audit progress reports. A summary of the recommendation tracking results is included at Appendix B.

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

- 4.1 It is my opinion that the audit work we have undertaken during 2015/16 has not identified any significant control weaknesses that would require disclosure in the Annual Governance Statement. The Section 151 Officer (or Deputy in his absence) receives all Internal Audit reports issued therefore he is also able to review them and make his own assessment when he is completing the Statement should he be of a different opinion.
- 4.2 The lack of detailed procedure notes for staff working in Council Tax at the Leicestershire Partnership Revenues and Benefits as reported by the Partnership Internal Auditors may be something that the Section 151 Officer wishes to consider for inclusion.

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

- 5.1 The Public Sector Internal Audit Standards require the QAIP to include internal and external assessments.
- 5.2 The internal assessments applicable to 2015/16 comprise of the following:

- The Senior Auditor set up all audit engagements and carried out documented reviews of working papers and draft reports prior to issue.
- Quarterly customer satisfaction surveys were sent out to all Heads of Service and Team Managers who had an audit in their service area. The results of which are included in the monthly performance review meetings and quarterly progress reports to Audit and Governance Committee.
- Monthly performance review meetings which are attended by the Senior Auditor and the Head of Finance/Director of Resources.
- Quarterly progress reports to Audit and Governance Committee which include monitoring of activity and performance.
- The Senior Auditor has undertaken a review to ensure continuing compliance with the recently updated PSIAS (see section 6).

5.3 The PSIAS require external assessments to be conducted at least once every five years. Our external assessment was completed in April 2015 and the full report was presented to the Audit and Governance Committee meeting on 24th June 2015.

6. CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

6.1 The external assessment conducted in April 2015 concluded that there were no significant gaps in compliance. An action plan was produced in response to the recommendations and suggestions made. The completed action plan is included at Appendix C.

6.2 As we were found to be compliant with the PSIAS in April 2015 and our key processes remain the same, I do not consider it necessary to undertake a full self assessment against the PSIAS for 2015/16. However, the PSIAS were updated in April 2016 therefore I have carried out a review against the additions to ensure we remain compliant from April 2016. This review is included at Appendix D.

Appendix A

RESULTS OF INDIVIDUAL AUDIT ASSIGNMENTS 2015/16

Audit Report	Grade	Number of recommendations				Date reported to Audit and Governance Committee
		High	Medium	Low	Advisory	
1 – Treasury Management	1	-	-	-	-	December 2015
2 – Hood Park Leisure Centre	2	3	1	-	1	December 2015
3 – Hermitage Leisure Centre	2	5	1	-	1	December 2015
4 – Corporate Performance Management	1	-	-	-	-	December 2015
5 – Building Control	2	4	-	-	-	December 2015
6 – Governance and Ethics (Member Training)	2	3	2	-	-	December 2015
7 – Rent Accounting	2	2	-	1	-	December 2015
8 – Creditors	1	-	-	1	-	December 2015
9 – Main Accounting System	1	-	-	-	-	December 2015
10 – Cash and Bank	2	2	-	-	-	March 2016
11 – Safeguarding	2	2	4	-	-	March 2016
12 – Planned Investment – Asset Management System	N/A					This audit was at the management review stage at the time of writing the report.
13 – ICT User Accounts	2	4	-	-	-	June 2016
14 – HR and Payroll	2	4	3	1	-	June 2016
15 – Debtors	1	-	1	-	-	June 2016

Members are able to view copies of all Internal Audit reports in full on iNet.

Appendix B

SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS 2015/16

Recommendation Priority	Recommendations Made	Recommendations Implemented	Recommendations Not Yet Due	Recommendations Overdue
High	29	18	10	1
Medium	12	6	6	0
Low	3	2	1	0
Total	44	26	17	1

The quarterly progress reports to Audit and Governance Committee give details of the outstanding and overdue high or medium priority recommendations.

There is one overdue recommendation that has been carried forward from 2014/15 which relates to anti fraud and corruption training for Members.

Recommendations Key:

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

Appendix C

PUBLIC SECTOR INTERNAL AUDIT STANDARDS EXTERNAL ASSESSMENT (APRIL 2015) ACTION PLAN

Standard	Action	Response	Target Date	Status
1000	Consider specifying who receives a report of insufficient resources and what they should do about it (S1).	If this situation was to occur the Senior Auditor would draw this to the attention of all relevant individuals.	N/A	
1200	Consider keeping meeting and planning papers with the relevant audit files (S2).	This is now being applied to 'new' audits and the engagement plans now detail the date of the set up meeting and the attendees.	Immediate	Implemented
1300	Consider involving non-audit staff in the annual self-assessment processes or rule this out in the QAIP procedure (S3).	This will be considered on an annual basis therefore will not rule it out of the QAIP procedure explicitly as it remains an option for the periodic internal assessments.	May 2016	Implemented
1300	Consider including the results of the satisfaction survey in the annual report (S4).	The results are included as part of the evidence to show compliance with the updated PSIAS as at April 2016.	N/A	Implemented
1300	Discussions about the external assessment should take place during formal Audit Committee meetings and the decisions should be minuted (R1).	The assessment was discussed at the March 2015 Audit Committee as part of the Internal Audit Progress Report. Within this report the Senior Auditor recommended that the external assessment be carried out and the Committee agreed, indicated by their acceptance of the report. In future the Senior Auditor will ensure all important decisions are minuted explicitly.	Next external assessment not required until 2020 however this approach will be applied at all Audit Committees.	Implemented
1300	Ensure the QAIP is reported in the annual report when the programme is in place (R2).	2014/15 and 2015/16 Annual Report include the QAIP.	May 2015	Implemented
2201	Consider filing working drafts of engagement plans with audit papers (S5).	This is now being applied to 'new' audits and the engagement plans now detail the date of the set up meeting and the attendees.	Immediate	Implemented
2210	Include overt references to fraud, error and value	This is now being included overtly as part of the	Immediate	Implemented

	for money in planning documents (S6).	audit objectives.		
2210	Ensure that risks are listed in engagement plans for all audits, including non-risk-based audits (S7).	Risks will be included on all engagement plans.	Immediate	Implemented
2330	Introduce the testing schedule at NWL (R3).	Testing schedules were already being used at NWL however we have improved them.	Immediate	Implemented
2330	Include any handwritten working papers, e.g. interview notes, in the audit file by scanning if necessary (R4).	I do not accept this recommendation. We write up notes after any meetings in the compliance testing schedule record and we will make clearer reference to dates/times of interviews in our working papers. We retain our hardcopy handwritten notes until the final report is issued however as an audit team we do not feel keeping all of our handwritten notes on audit files would add value.	N/A	Not accepted
2330	Agree a retention policy (R5).	Agreed – in line with LGA guidance it will be 6 years. This will be included in the corporate policy when it reviewed and was added to the Internal Audit Charter at the August 2015 review.	Immediate	Implemented
2340	Include the senior auditor's name on engagement plans and reports (R6)	Agreed.	Immediate	Implemented
2340	Continue to explore ways to supervise and review audit work undertaken by senior auditor (S8).	Agreed.	Immediate and ongoing	Implemented
2410	Consider if it would be appropriate to include or offer more details on more critical reports (S9).	Report templates are already amended on an audit by audit basis.	N/A	
2450	Revise the opinion so that they are consistent with each other (R7).	Agreed. Annual opinion now based on assurance model used for all audits.	May 2015	Implemented
2450	Make it clear that the opinion reflects governance, risk and control, either in the definitions or in the text preceding the definitions and control (R8).	Agreed.	May 2015	Implemented
Code of Ethics	Consider developing a training needs assessment (S10).	Training needs are considered as part of the BEE Valued Reflection process. The development element is considered at Q3 meeting and there is a training log for the team.	December 2015	Implemented

Key

S – Suggestion

R - Recommendation

SENIOR AUDITOR REVIEW OF COMPLIANCE WITH UPDATED PSIAS APRIL 2016

Additional Requirement	Current Position	Action Required
Section 3 Mission of Internal Audit: <ul style="list-style-type: none"> Mission statement for Internal Audit 	The Internal Audit Charter states our purpose however it does not include a mission statement.	A mission statement will be prepared by the Senior Auditor and included in the Charter when it is reviewed in August 2016.
Section 4 Core Principles for the Professional Practice of Internal Audit: <ul style="list-style-type: none"> a) Demonstrates integrity. b) Demonstrates competence and due professional care. 	<p>a) Confirmed by April 2015 external assessment as this is a component of the Code of Ethics in the existing PSIAS. The Internal Audit team always work to high professional standards which is confirmed through informal feedback and customer satisfaction survey results which have 100% satisfaction.</p> <p>b) Confirmed by external assessment as this was considered as PSIAS 1200. The Senior Auditor is suitably experienced and qualified and reviews all work. Training needs are assessed for each team member as part of the</p>	<p>a) No action required.</p> <p>b) No action required.</p>

	corporate performance management system.	
c) Is objective and free from undue influence (independent).	c) Confirmed by external assessment as this was considered as PSIAS 1100. The Senior Auditor has direct access to the Audit and Governance Committee and the Chief Executive if required.	c) No action required.
d) Aligns with strategies, objectives and risks of the organisation.	d) The annual planning process ensures that the audit plan is risk based and aligns with Council priority areas. Individual audit engagements consider specific risks to services.	d) No action required.
e) Is appropriately positioned and adequately resourced.	e) The Senior Auditor job title sometimes causes confusion, usually externally, as this role is the Chief Audit Executive which is more commonly titled Head of Internal Audit. The Senior Auditor title could be perceived to be diminishing the status of Internal Audit in the organisation. As part of the annual planning process resources are considered and they are currently adequate.	e) Senior Auditor to discuss job title with Director of Resources.
f) Demonstrates quality and continuous improvement.	f) Internal Audit is subject to both internal and external assessment of quality. Continuous improvement is	f) No action required.

	<p>achieved by responding to feedback received informally and formally. The external assessment was positive and found no significant gaps in compliance with the PSIAS.</p>	
g) Communicates effectively.	g) There are specific questions in the customer satisfaction surveys that relate to the quality and clarity of reports and all have received positive responses.	g) No further action.
h) Provides risk based assurance.	h) The annual audit planning process is based on an annual risk assessment of services/functions. Each audit engagement also specifically identifies relevant risks.	h) No further action.
i) Is insightful, proactive and future-focussed.	i) The Senior Auditor is proactive in identifying risks and engaging with management to consider how effectively these risks are being addressed and how an audit may add value. The audit plan is purposefully flexible and is often revised to take account of changes to risks – either increasing or diminishing. Any changes to the plan are reported to Audit and Governance Committee.	i) No further action.
j) Promotes organisational improvement.	j) This is evidenced through our audit reports which identify weaknesses and	j) No further action.

	<p>make useful recommendations for improvement. Internal Audit follow up the progress of the implementation of recommendations (see Appendix B). The value of audit recommendations is a question on the customer satisfaction survey which has only positive responses.</p>	
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