



**Internal Audit Update
December 2020
HARBOROUGH DISTRICT COUNCIL**



Date: 15th December 2020

Introduction

- 1.1 LGSS provides the internal audit service for Harborough District Council and has been commissioned to provide 235 audit days to deliver the 2020/21 Annual Audit Plan and undertake other work commissioned by the Council.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Governance and Audit Committee to scrutinise the performance of the Internal Audit Team and to satisfy itself that it is receiving appropriate assurance about the controls put in place by management to address identified risks to the Council. This report aims to provide the committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the Consortium.

Performance

2.1 Delivery of the Audit Plan for 2020/21

LGSS has been set the objective of delivering at least 90% of the Internal Audit plans for 2020/21 to draft report stage by the end of March 2021.

At the date of writing, two reports have been drafted and fieldwork is underway on a number of further assignments. Progress on individual assignments is shown in **Table 1**.

2.2 Delivery within budget

Internal Audit is on target to deliver the audit plan within the 235 days budget. Any overruns on individual assignments are managed within the overall budget.

2.3 Client satisfaction

Customer satisfaction questionnaires are issued on completion of audits. At the time of reporting, no questionnaires had been returned in the year to date.

2.4 Productivity

As at the latest possible date for reporting purposes, current members of the audit team have been delivering 93% productivity against the target of 90%.

2.5 Outstanding audit recommendations

Since the last Governance and Audit Committee meeting, 22 actions arising from Internal Audit reports have been implemented.

At the date of reporting, there are 6 agreed management actions that are due but yet to be confirmed as implemented.

An analysis of the implementation of actions is provided in **Table 3**. Full details of all recommendations overdue for more than three months are provided in **Appendix B**.

2.6 **Summary of audit findings**

Copies of all Internal Audit reports are provided to the Chairman of the Governance and Audit Committee when finalised.

It was agreed with management at the start of the financial year that, due to the pressures of the Covid-19 response on Council services, Internal Audit would avoid conducting any activity or assignments which could negatively impact upon officer availability in those areas at that time. Internal Audit has been mindful of the impact of the pandemic on the Council's service areas and has sought to provide support where possible. This has resulted in some audit assignments being postponed until a later stage in the financial year. Additional support provided by the Internal Audit team during this period has included pro-active support and advice around fraud risks, business grants and governance.

In relation to governance, the National Audit Office (NAO) produced guidance for Audit Committees (NAO Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19) indicating areas where committees should seek assurance regarding the financial management of councils during Covid-19. A number of the sections relate to the financial accounts (such as valuations) and it is considered that these will be addressed when the Council's accounts are reviewed. There were some sections, however, which related to the control environment, control of expenditure and fraud risks. As such, Internal Audit have advised the Council on conducting an assessment against these elements of this guidance. A copy of the assessment completed by officers is provided in Appendix C to this report and highlights assurances that the Committee can note in relation to financial management during this time.

The Internal Audit team have commenced work on planned audit assignments during recent months, where it was agreed with management that the audit could be facilitated and delivered remotely. Since the last Governance and Audit Committee meeting, two draft Internal Audit reports have been issued and will be summarised at the next Governance and Audit Committee meeting, once finalised.

Table 1 - Progress against 2020/21 internal audit plan

<i>Assignment</i>	<i>Assurance sought</i>	<i>Budget days</i>	<i>Actual days</i>	<i>Status</i>	<i>Planned start</i>	<i>Assurance rating</i>	<i>Comments</i>
Corporate governance and counter fraud							
Counter fraud and governance arrangements (consultancy)	To provide ongoing support on the Council's proactive counter fraud work and Code of Corporate Governance.	5	1	In progress	As required		
Ethics and equalities	To provide assurance over the Council's ethical governance arrangements and compliance with regulations and good practice for equalities.	10	1	In progress	Q2		
Key corporate controls and policies							
Key financial controls	To provide assurance over the design and compliance with key controls within the Council's financial systems. Undertaken on an annual basis, with a cyclical approach to testing. To inform external audit work and provide s151 assurances.	30	1	Planning	Q4		
Asset management	To provide assurance over the safe and effective management of the Council's property assets and to confirm that controls are being effectively exercised in relation to leased properties (including Grow On Space).	15	0.5	Planning	Q3		
Procurement compliance	To test compliance with Contract Procedure Rules and the Statement of Required Practice on the procurement of goods and services across the Council. To inform annual assurance opinion on value for money and counter fraud.	8	-	Not started	Q4		

<i>Assignment</i>	<i>Assurance sought</i>	<i>Budget days</i>	<i>Actual days</i>	<i>Status</i>	<i>Planned start</i>	<i>Assurance rating</i>	<i>Comments</i>
Payroll system (consultancy)	To provide consultancy support on the implementation of the new payroll system.	10	-	As required	As required		
The People: A healthy, inclusive and engaged community.							
Leisure services – embedded assurance review	To engage with the project and issue reports at key stages – including assurance over the management of risks, consultation and communications, procurement, use of resources and plans and governance and decision making.	15	1.5	In progress	Q1-Q4		
The Place: An enterprising, vibrant place.							
Grow on space – embedded assurance review	To provide assurance over the management of this project, including risk management, governance and procurement/contract management.	15	1.5	In progress	Q1-Q4		
Development management	To provide assurance over the effective delivery of development management services – including the speed and quality of decision making and compliance with regulatory requirements.	15	12	Fieldwork complete	Q3		
Planning enforcement	To provide assurance over the management of planning enforcement in the district including a review of performance measures, the Local Enforcement Plan and effective use of the Uniform system.	15	13	Draft report issued	Q3		
S106 contributions	To provide assurance over the controls operating for the agreement of s106 contributions and recovery of the monies when due. To follow up on progress made since the audit in 2016/17 in strengthening monitoring controls.	12	11	Draft report issued	Q3		

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Your Council: innovative, proactive and efficient.							
Smarter Services programme (consultancy)	To provide consultancy support during the transformation of services and processes – to ensure key controls are considered in service redesign.	12	1	As required	As required		
IT programme management	To provide assurance over the management of the Council's IT projects. To include a review of a sample of key projects and compliance with effective project management controls to support the timely and efficient implementation of the programme.	10	2	In progress	Q3		
Customer service standards	To provide assurance over consistency of customer service standards across a sample of areas of the Council and Customer Services.	10	-	Not started	Q4		
Other support							
Client management and support - support and reporting to Governance and Audit Committee, management support and engagement, ad-hoc advice and assistance, annual Internal Audit report, follow ups on audit recommendations and partnership working with external auditors.		33	17				
Audit management - development and management of the Internal Audit service in line with the Public Sector Internal Audit Standards, including annual standards assessment, continuous improvement, internal audit charter and manual, management, training and development of the team and performance reporting.		20	9				
TOTAL		235	72	31%			

Notes

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members might expect to receive.

Compliance assurances			
Level		Control environment assurance	Compliance assurance
Substantial	●	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended although some minor errors have been detected.
Good	●	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
Satisfactory	●	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
Limited	●	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No	●	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational impact		
Level		Definition
Major	●	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	●	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	●	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Table 2: Customer satisfaction

At the completion of each assignment, the auditor issues a customer satisfaction questionnaire (CSQ) to each client with whom there was a significant engagement during the assignment. The standard CSQ asks for the client’s opinion of four key aspects of the assignment. The responses received in the year to date are set out below.

Aspects of Audit Assignments	Outstanding	Good	Satisfactory	Poor
Design of Assignment	0	0	0	0
Communication during Assignments	0	0	0	0
Quality of Reporting	0	0	0	0
Quality of Recommendations	0	0	0	0
Total	0	0	0	0

Table 3: Implementation of audit recommendations

	High priority recommendations		Medium priority recommendations		Low priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and implemented since last committee meeting	3	100%	6	67%	13	81%	22	79%
Actions due within last 3 months, but <u>not implemented</u>	-	-	2	22%	-	-	2	7%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	-	-	1	11%	3	19%	4	14%
Totals	3	100%	9	100%	16	100%	28	100%

Limitations and responsibilities

Limitations inherent to the internal auditor's work

LGSS Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Governance & Audit Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that the consortium are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to Internal Audit's attention. As a consequence, the Governance & Audit Committee should be aware that the audit opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

Future periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. 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 there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.