



Internal Audit Update October 2021

HARBOROUGH DISTRICT COUNCIL

Introduction

- 1.1 The internal audit service for Harborough District Council has been commissioned to provide 235 audit days to deliver the 2021/22 Annual Audit Plan and undertake other work commissioned by the Council.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Audit and Standards 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 2021/22

Internal Audit has been set the objective of delivering at least 90% of the Internal Audit plans for 2021/22 to draft report stage by the end of March 2022.

At the date of writing, three reports have been finalised 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, three questionnaires have been returned and the results are shown in table 2.

2.4 Productivity

As at the latest possible date for reporting purposes, current members of the audit team have been delivering 94% productivity against the target of 90%.

2.5 Outstanding audit recommendations

Since the last committee meeting, nine actions arising from Internal Audit reports have been implemented.

At the date of reporting, there are six agreed management actions that are due but yet to be confirmed as implemented. Of these, two have been overdue for more than three months and both of these actions are of a 'low priority'.

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

Risk management

Risk management is the process by which risks are identified, evaluated and controlled. It is a key element of the framework of governance together with structures and processes, standards of conduct and service delivery arrangements. During periods of increasing demand and reducing resources effective risk management is critical to enable the Council to deliver its objectives in the light of these and other key risks. The last Risk Management audit work completed for the Council was 2017. Assurance has been sought that the risk management strategy and approach is being consistently and effectively reported and embedded in practice.

The Council's Risk and Opportunity Management Framework provides a structured and coherent approach to risk management and is available to all staff. Arrangements for ensuring accountability and ownership of risks are sound. Roles and responsibilities for risk and project management are clearly specified. Training for risk management is completed on an ad hoc basis and no formal training has taken place for key staff or members since 2017.

Appropriate controls are in place to ensure that risks are identified and all corporate, business and operational risks are recorded on the TEN Performance Management System. Furthermore, review of the corporate risk register confirmed that all risks were linked to the Council's critical outcomes.

The Council recognises that all risks should have appropriate mitigations in place which can be evidenced to ensure that the potential impact of each risk is clearly addressed where possible. However, testing of a sample of risks identified 40% of cases with a lack of evidence for the stated mitigations. The Risk and Opportunity Board meets quarterly to discuss and evaluate the corporate risk register and implement any changes. Whilst there is no record of these meetings, performance reports are compiled to give updates at the Audit and Standards Committee.

The Council is able to demonstrate that it has an appropriate framework in place in order to manage its risks effectively through quarterly risk update reports and arrangements are also reflected in the Annual Governance Statement.

Based on the audit findings, Internal Audit has given the following assurance opinions over the management of the associated risks:

Assurance Opinion		
Control environment	Substantial	●
Compliance	Good	●
Organisational impact	Minor	●

Community grants

The Council's community grant fund is an inclusive fund, open to all parishes, and voluntary and community groups. In order to meet the eligibility criteria, projects must deliver outcomes supporting community groups and projects in the Harborough District. The application window in relation to 2020/21 grant funding closed on 29th January 2021, with total grant funding of £68k being made available to eligible applicants.

The Council's community grant fund guidance notes are clear, concise and complete, and are consistent with the Council's corporate priorities.

Sample testing confirmed that grant fund applications had met the eligibility criteria in accordance with agreed procedures. The pre-grant due diligence process could be further enhanced with regards to small grant applications to provide assurance that all recipients are deemed to be appropriate. Quality control and record-keeping arrangements will require strengthening in order to demonstrate that a consistent, fair and transparent decision-making process exists, particularly with regards to the weighted scoring, and evidenced approval of grant fund applications.

The Council's terms and conditions include matters in relation to the recovery of misused or unused grant funding; including such information within a clear declaration on the small grant application form may further enhance control. Internal Audit review confirmed that all grant funding had been paid via BACS into the correct bank account.

Sample testing has highlighted a lack of evidence that some key controls had consistently operated as intended, such as the accuracy of weighted scoring calculations. As such, suitably prioritised recommendations have been made to strengthen controls going forward.

Based on the audit findings, Internal Audit has given the following assurance opinions over the management of the associated risks:

Assurance Opinion		
Control environment	Good	●
Compliance	Satisfactory	●
Organisational impact	Minor	●

Ethics and equalities

As a local authority, Harborough District Council has a responsibility to act in an ethical way, by demonstrating good governance practice and upholding high standards of conduct and behaviour by officers, Members, partners and providers. In the course of conducting its business, the Council must seek to balance a number of different ethical considerations. Ensuring that the Council as a whole acts in an ethical manner starts with the authority's key values and governance framework.

The Council has produced key documents to highlight and maintain a clear governance framework, with ethical principles and considerations. Review of a wide variety of policies, guides and codes found that these include key ethical and governance information, thereby

ensuring that there is a consistent approach. Induction and training information for Officers and Members is provided, and includes mandatory ethics and diversity training. Ethical considerations are taken into account when setting up and managing contracts, and partnership agreements will include dispute resolution and promotion of equality and diversity going forward. An updated equality plan covering 2021 – 2024 is pending committee approval.

The rules around decision making are detailed within the Council’s Constitution and are clear and accessible. Key decision testing showed that processes and procedures were working effectively, with ethical considerations noted. Web accessibility requirements have been reviewed and the Council has met the requirements for the government’s accessibility standards within the timeframe given. There is potential to make better use of National Fraud Initiative data matching as this provides an opportunity to seek assurance over compliance with officer declarations of directorships and private interests.

Pay Policy Statement, Recruitment and Selection Policy and Equal Pay Policies are in place, however the latter has not been reviewed since 2012 and requires an update to include specific legislative requirements such as gender pay gap and fair pay reporting. Testing of recruitment procedures found that some of the templates are not fully utilised and checking of key documentation should be evidenced, and there is potential to update existing templates in flexible working to ensure ethical standards are considered.

Internal Audit has given the following assurance opinions over the management of the associated risks:

Assurance Opinion		
Control environment	Substantial	●
Compliance	Good	●
Organisational impact	Minor	●

Payroll project (consultancy review)

The project was inevitably impacted by the pandemic as well as a number of staff changes in senior roles. Nevertheless, it was ultimately delivered on time and within budget due to the commitment of the project team, pragmatic decision making and good working relationships with the new provider. Some elements of the project were rescheduled but the core payroll and HR functions went live on 1st April 2021 as planned.

The End of Project and Lessons Learnt reports provide a clear and useful review of the project, including a broad assessment of the achievement of project objectives and areas for further improvement. Officers should ensure that these reports are appropriately circulated to ensure that the learning points are taken into account for future projects.

No assurance opinion has been provided as this assignment was of a consultancy nature. Additional areas for management consideration arising from this review have been highlighted in a consultancy report issued by the Internal Audit team.

Table 1 - Progress against 2021/22 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	-	In progress	As required		Fraud awareness work planned for November 2021
Risk management	To provide assurance over the Council's risk management framework and effective embedding of risk management across the organisation. Last audit in 2017 – usually cover three yearly.	8	13	Final report issued	Q1	Control environment: Substantial Compliance: Good Organisational risk: Minor	
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	-	Not started	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	-	Not started	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.	9	-	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>
Budgetary control	To provide assurance over the Council's framework for setting, monitoring and managing budgets to support ongoing financial stability and delivery of savings.	10	2.8	Fieldwork underway	Q3		
Payroll system (consultancy)	To provide consultancy support on the implementation of the new payroll system.	5	6.2	Final report issued	Q1	Consultancy review	
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	1.9	In progress	Q1-Q4		
Temporary accommodation	To provide assurance that the Council's placing of individuals in temporary accommodation is in line with national requirements and local policy and that recoverable monies are secured.	7	5.3	Fieldwork underway	Q2		
The Place: An enterprising, vibrant place.							
Planning fee income	To provide assurance over the recovery of monies due in relation to planning fees – including charging for all chargeable services, benchmarking to other authorities and informed projections in budget monitoring.	12	11.9	Fieldwork complete	Q2		
Community grants	To provide assurance over the grant application and approval process, including counter fraud controls.	12	12	Final report issued	Q1	Control environment: Good Compliance: Satisfactory Organisational risk: Minor	

<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>
Growth projections	To provide assurance over the Council's effective use of data relating to growth in the district and its application in effective financial modelling such as business rates projections.	10	0.5	Planning	Q3		
Your Council: innovative, proactive and efficient.							
Transformation programme (consultancy)	To provide consultancy support during the transformation of services and processes – to ensure key controls are considered in service redesign.	12	2.1	As required	As required		
Covid 19 recovery	To provide assurance over actions the Council is taking to move to business as usual and the project management supporting this, including review of the Council's response. To review changes in working practices/procedures and whether changes in key controls pose any additional risks to the organisation.	15	2.2	Fieldwork underway	Q2		
IT governance	IT is central to, and essential for, the business of the Council. It is, therefore, important that a suitable and robust IT strategy, a system of IT governance and all necessary IT policies are in place to support this.	5	0.5	Planning	Q3		
Other support							
National Fraud Initiative (NFI) data matching		10	-				
Client management and support - support and reporting to 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.		35	16				

<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>
	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	7				
TOTAL		235	82	35%			

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	1	1	1	0
Communication during Assignments	1	1	1	0
Quality of Reporting	1	2	0	0
Quality of Recommendations	2	1	0	0
Total	5	5	2	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	-	-	7	77%	2	33%	9	60%
Actions due within last 3 months, but <u>not implemented</u>	-	-	2	23%	2	33%	4	26%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	-	-	-	-	2	33%	2	14%
Totals	0	-	9	100%	6	100%	15	100%

Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Audit & Standards 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 Audit & Standards 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.