



**Internal Audit Update
March 2019**

HARBOROUGH DISTRICT COUNCIL



Date: 6th March 2019

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 2018/19 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 2018/19

LGSS has been set the objective of delivering at least 90% of the Internal Audit plans for 2018/19 to draft report stage by the end of March 2019.

At the date of writing, eight assignments have been finalised, three reports are at draft stage and planning or fieldwork is underway on all remaining assignments from the audit plan.

The embedded assurance review of the leisure project has been carried forward to the draft 2019/20 audit plan. It has been agreed with management that time allocated to the leisure project will be used to provide additional assurances in respect of the funding risks associated with the grow-on space project.

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 had been returned with scores of 'Good' or 'Outstanding'. A summary of the responses is provided in **Table 2**.

2.4 Productivity

As at the latest possible date for reporting purposes, current members of the audit team have been delivering 92% productivity against the target of 90%.

2.5 Outstanding audit recommendations

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

At the date of reporting, there are 16 agreed management actions that are due but yet to be confirmed as implemented.

An analysis of the implementation of actions is provided in **Table 2**. Full details of all recommendations overdue for more than three months classified as high or medium priority 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.

Since the last Governance and Audit Committee meeting, three Internal Audit reports have been finalised and the key findings are summarised below.

Cash Handling

Although the number of cash transactions is relatively few at the Council, strong controls are necessary as cash is inherently vulnerable to the risk of theft and fraud. The main sources of cash payments are for market rents, car parking and green waste collection.

Based on Internal Audit's review the Council's finance procedure rules are clear, include responsibilities for cash accounts and are fit for purpose. The Council discourages cash payments and has a money laundering policy in place with a cash limit included, however the final version needs to be published on the intranet. Procedure notes for cash handling procedures are limited and staff awareness of the cash limit was low resulting in two instances of exceeding the cash limit in the last 12 months. Increased awareness in money laundering and cash limits would reduce the risk of further cases exceeding the limit.

Controls for safe storage and prompt banking of Health and Wellbeing cash were limited at the time of audit. Although the sums involved are relatively small, management should ensure that alternative methods of payment are investigated and that appropriate controls are in place and working effectively.

Appropriate procedures are in place for all other cash handling arrangements and testing of a sample of transactions showed a full audit trail of timely transactions. Whilst the safes used are appropriate and are not in obvious locations, the keys require additional security to restrict access and further mitigate risk of theft or loss.

Reconciliations for incoming cash are monitored through full bank reconciliations however reconciliation of car parking income to ticket machine records are not recorded. Maintenance of these reconciliations will reduce the risk of loss or theft of income and identify any potentially suspicious trends. Petty cash reconciliations are accurate and had no unbalanced items. Unannounced audit spot-checking on petty cash floats found overages which should be banked to maintain accurate records.

Some inconsistencies in post recording procedures for cash and cheques were noted and, in particular, the audit highlighted areas for improvement in relation to record keeping. Maintaining accurate cash income records and consistently using controls for cash income will reduce the risk of loss, mishandling or theft. Internal post boxes are sometimes used to

submit cash to the Council. Signs should be posted next to internal post boxes stating cash should not be posted to discourage this use.

Based upon these 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	●

In order to further improve the controls and compliance, eight recommendations have been made and an action plan agreed with management to implement these.

Absence Management Follow-Up

Good levels of attendance at work are crucial if the Council is to meet its commitment to the economic, effective and efficient delivery of quality services. Sickness absence has a detrimental effect on the Council's ability to meet this commitment, by directly affecting the services that can be provided to the public, and having an adverse impact with regards to value for money.

The 2016/17 internal audit review of absence management provided only limited assurance and six recommendations were agreed by management to address the control weaknesses identified. This year's review was intended to provide assurance on the implementation of the agreed actions and whether improvements are fully embedded.

The audit found that all agreed management actions had been implemented. However, the Council encountered a number of issues during the implementation of the new HR and payroll system (SAFE) during 2017/18, one of which related to the absence management functionality of MyView. Consequently, it is understood that sickness absence was manually recorded by managers during 2017/18 and that absence performance reporting and reconciliations did not take place during this period, as agreed by Corporate Management Team.

The absence management functionality of MyView has been available since April 2018 and performance reporting reinstated. However, the reconciliation process to agree MyView to supporting documentation had not recommenced at the time of audit. Sample testing found that absence had not been consistently recorded in accordance with the requirements of the Attendance Management Policy and Procedure in all cases.

Absence trigger points are monitored by the HR Business Partners on a monthly basis to ensure managers take action at the appropriate point. However, sample testing identified one case where officers had not identified that absence levels had reached a trigger point due to omission of the absence reporting reconciliation process.

It is understood that managers are supported by HR in accordance with the Attendance Management Policy and Procedure, and it is noted that an attendance management training session is scheduled to take place next month.

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

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

In order to further improve the controls and compliance, one recommendation has been made and an action plan agreed with management.

General Data Protection Regulation (GDPR)

The General Data Protection Regulation (GDPR) came into force on 25th May 2018 and together with the Data Protection Act (DPA) 2018 replaces former legislation on data protection. Whilst many of the GDPR's main concepts and principles are consistent with those detailed within the former DPA 1998, the GDPR does include new elements and significant enhancements.

The Council has undertaken an information audit to determine what personal data is held and how it is processed; such information is detailed within the Council's information asset register. Whilst some of the relevant cells within the information asset register are yet to be populated, it is understood that departmental compliance audits are currently underway to resolve such issues. Policies in relation to GDPR are available to all staff, it is however noted, that the policies have not yet been formally approved at committee level. Whilst ICT security policies are also available to all staff, a review identified that these have not been subject to recent review.

The Council's privacy notices are clear and concise and include matters in relation to the Council's lawful basis for processing data; some areas for improvement have been identified with regards to the processing of special category data. Matters in relation to consent are detailed with the Council's privacy notice and information asset register, and it is understood that a further review of existing consents and consent mechanisms is currently underway to determine whether they meet the GDPR standard.

Robust systems and procedures exist to respond to subject access requests within the agreed timescales, and to detect, report and investigate a personal data breach. Sample testing identified 100% compliance with key controls in both areas.

The Council's Information Governance Officer and designated Data Protection Officer is suitably skilled and experienced and robust arrangements exist with regards to the provision of advice and compliance monitoring. A review identified that whilst 98% of staff have completed the mandatory online GDPR training, only 22% of Members attended the GDPR training session which was held on 15th May 2018. In addition, whilst the Council and

Electoral Registration Officer are registered with the Information Commissioner's Office (ICO), it is noted that 76% of Members are not currently registered at the time of reporting.

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

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

In order to further improve the controls and compliance, four recommendations have been made and an action plan agreed with management.

Note: Members can request copies of all final Internal Audit reports from the Head of Internal Audit at any time.

Table 1 - Progress against 2018/19 Internal Audit Plan

Assignment	Assurance sought	Budget days	Actual days	Status	Planned start	Assurance Rating	Comments
Corporate Governance and Counter Fraud							
Counter Fraud & Ethical Governance (Consultancy)	To provide ongoing support on the Council's proactive counter fraud work and Code of Corporate Governance.	7	7	Complete		N/A – this is consultancy work provided as required.	Work has focused on raising fraud awareness and embedding policies.
General Data Protection Regulations (GDPR)	To provide assurance over the Council's procedures and controls to ensure data is held, handled and disposed of in a secure manner and in compliance with the new data management regulations.	11	11	Final report issued		Environment: Good Compliance: Good Impact: Minor	See summary of findings at 2.6 above.
Cyber Security	To provide assurance that the Council is taking proactive steps to address the risks of a cyber-attack – including IT system controls, staff awareness and incident planning.	15	0.5	Planning			
Transparency Code (Consultancy)	To provide assurance over the Council's compliance with the statutory requirements of the Transparency Code and to benchmark the amount of non-mandatory data/information made publicly available against comparable local authorities.	5	5.2	Final report issued		N/A – this was a consultancy review rather than a controls assurance audit.	
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	6.1	Fieldwork in progress			

Assignment	Assurance sought	Budget days	Actual days	Status	Planned start	Assurance Rating	Comments
Business Continuity and IT Disaster Recovery	To review the Council's business continuity arrangements and plans for in house IT Disaster Recovery. To provide assurance that in the event of an unplanned incident, the Council could maintain an appropriate level of continuous service delivery, minimise costs and damage and whether plans would be accessible and fit for purpose to re-establish normal service levels.	12	6.5	Draft report issued			Business continuity management audit complete. IT Disaster Recovery to be covered alongside Cyber Security audit.
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	2.6	Fieldwork in progress			
Constitution and Scheme of Delegation Compliance	To provide assurance over compliance with the delegations and responsibilities specified in the Council's Constitution, including the Scheme of Delegation. Based on sample testing and review of controls.	12	11.8	Draft report issued			
Cash Handling	To provide assurance over the design of controls for handling of cash across the organisation and compliance with these controls in practice, to mitigate the risk of theft, fraud and error.	8	9	Final report issued		Environment: Good Compliance: Satisfactory Impact: Minor	See summary of findings at 2.6 above.
Corporate Objective: To provide public services which are effective and deliver value for money							
Environmental Services Contract	To provide assurance over the effective and robust management of this high value contract to ensure value for money is delivered and risks, such as fraud and overpayment, at managed effectively.	15	12.7	Draft report issued			

Assignment	Assurance sought	Budget days	Actual days	Status	Planned start	Assurance Rating	Comments
Channel Shift (Consultancy)	To provide advice on the Channel Shift project, including reviewing changes in the control framework and assessing risks arising from new ways of working.	8	0.5	Consultancy support - as required	As required		Engaging with project leads.
Absence Management – Follow up	To follow up on implementation of the actions agreed to address the weaknesses in the control framework identified by the Internal Audit review in 2016/17. To provide assurance over the embedding of the improvements and the effectiveness of these in practice.	7	7.0	Final report issued		Environment: Satisfactory Compliance: Satisfactory Impact: Minor	See summary of findings at 2.6 above.
Corporate Objective: To support the vulnerable in the community where they live							
Disclosure and Barring Service (DBS) checks	To provide assurance that appropriate use is being made of the Disclosure and Barring Service for relevant posts and the issuing of taxi/private hire licenses. To provide assurance over the Council's compliance with the DBS Code of Practice in handling of the checks and supporting evidence.	10	15.7	Final report issued		Environment: Substantial Compliance: Good Impact: Minor	Reported to committee 11 th September 2018
Corporate Objective: Working with communities to develop places in which to live and be happy							
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	4.4	On hold	Q1-Q4	N/A	Carried forward to 2019/20 audit plan.
Grow on space – Embedded Assurance Review	To provide assurance over the management of this project, including risk management, governance and procurement/contract management.	12	11.6	Stage 1 final report issued		Environment: Substantial Compliance: Substantial Impact: Minor	Reported to committee 14 th November 2018

<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>
Lottery (Consultancy)	Consultancy support on the setting up of the new lottery and ensuring that robust controls and procedures are in place for payments and application of eligibility criteria for organisations seeking funding.	4	5.2	Final report issued		N/A – this was a consultancy review rather than a controls assurance audit.	
<i>TOTAL AUDIT DAYS</i>		179	116.8	65%			
Other support							
Client management and support		35	17.2				
Management & development of the delegated Internal Audit service		21	7.1				
TOTAL		235	141.1				

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 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 and represent a 67% return rate.

Aspects of Audit Assignments	Outstanding	Good	Satisfactory	Poor
Design of Assignment	1	3	0	0
Communication during Assignments	1	3	0	0
Quality of Reporting	1	3	0	0
Quality of Recommendations	1	3	0	0
Total	4	12	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	0	-	1	20%	2	17%	3	16%
Actions due within last 3 months, but <u>not implemented</u>	1	50%	2	40%	6	50%	9	47%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	1	50%	2	40%	4	33%	7	37%
Totals	2		5		12		19	

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.