



**Internal Audit Update  
November 2018  
HARBOROUGH DISTRICT COUNCIL**



**Date: 14<sup>th</sup> November 2018**

## ***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, four reports have been finalised, one is at draft stage and fieldwork is underway on a further five assignments representing 63% of the audit plan. The embedded assurance review of the leisure project is currently on hold as long term options for the project are currently under review.

In addition, a Fraud Awareness session has been delivered by Internal Audit to all Council staff. This focused on the new Anti-Bribery and Money Laundering policies and Internal Audit continues to support management in embedding these across the organisation. A Fraud Awareness Week is to be facilitated by Internal Audit in November and will provide an opportunity to raise awareness of the new fraud policies.

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 91% 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 nine 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, one Internal Audit report has been finalised and the key findings are summarised below.

### Business 'Grow On' Space Project – Embedded Assurance

The development of "Grow On" space is included within the Council's Corporate Plan, subject to affordability and securing external funding. The project will support the growth and retention of businesses in Harborough district and help achieve the Council's key corporate objective of developing an enterprising, vibrant place.

Following the success of the Harborough Innovation Centre (HIC), it was identified that when businesses were looking to grow to larger accommodation there was a lack of appropriate space within the Harborough district. This makes it difficult for the businesses within the HIC to move out and expand whilst remaining within the district. Following previous funding bids that were unable to proceed for various reasons, the project was submitted for funding in February 2017 as part of the European Structural and Investment Funds (ESIF) programme and on 25th April 2017 HDC received notification that the outline application had been successful and was invited to complete a full application. Following a period of extensive scrutiny and refinement of the bid, the funding application was formally approved by the Ministry of Housing, Communities and Local Government (MHCLG) on 14th September 2018 for £3.283m. Additional funding was approved by the Leicester and Leicestershire Enterprise Partnership (LLEP) on 12th October 2018 for £0.988 million.

Based on interviews and review of project documentation it is Internal Audit's opinion that, despite some initial set-backs and delays associated with the acquisition of a suitable site and securing the necessary funding (the initial project mandate was approved in 2015), the project is being effectively managed and is on-course to deliver the expected outcomes within the approved budget and revised timetable. Nevertheless, the project is still at the early stages and sustained effort will be required to ensure that the project remains on track and that stringent ESIF grant conditions are complied with. Construction work is expected to

commence soon together with development of the proposed operating model with a view to procuring a suitable managing agent early next year and final handover in October 2019. This is a challenging timetable developed to meet funding conditions, although it is understood that some flexibility in the timetable may be possible.

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

Assurance Opinion		
<b>Control environment</b>	Substantial	●
<b>Compliance</b>	Substantial	●
<b>Organisational impact</b>	Minor	●

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

*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**

<b>Assignment</b>	<b>Assurance sought</b>	<b>Budget days</b>	<b>Actual days</b>	<b>Status</b>	<b>Planned start</b>	<b>Assurance Rating</b>	<b>Comments</b>
<b>Corporate Governance and Counter Fraud</b>							
Counter Fraud & Ethical Governance (Consultancy)	To provide ongoing support on the Council's proactive counter fraud work and Code of Corporate Governance.	7	4.2	<b>In progress – support provided as required</b>			
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	3.9	<b>Fieldwork in progress</b>			
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		Q4		
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	<b>Final report issued</b>		N/A – this was a consultancy review rather than a controls assurance audit.	
<b>Key Corporate Controls and Policies</b>							
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	0		Q4		

<b>Assignment</b>	<b>Assurance sought</b>	<b>Budget days</b>	<b>Actual days</b>	<b>Status</b>	<b>Planned start</b>	<b>Assurance Rating</b>	<b>Comments</b>
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	0		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	0		Q3		
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	8.3	<b>Fieldwork in progress</b>			
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	<b>Draft report issued</b>			
<b>Corporate Objective: To provide public services which are effective and deliver value for money</b>							
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	6.1	<b>Fieldwork in progress</b>			

<b>Assignment</b>	<b>Assurance sought</b>	<b>Budget days</b>	<b>Actual days</b>	<b>Status</b>	<b>Planned start</b>	<b>Assurance Rating</b>	<b>Comments</b>
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		As required		
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	1.5	<b>Fieldwork in progress</b>			
<b>Corporate Objective: To support the vulnerable in the community where they live</b>							
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	<b>Final report issued</b>		Environment: Substantial Compliance: Good Impact: Minor	Reported to committee 11 <sup>th</sup> September 2018
<b>Corporate Objective: Working with communities to develop places in which to live and be happy</b>							
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	<b>On hold</b>	Q1-Q4		Long term options currently being reconsidered pending procurement of short term service contract.
Grow on space – Embedded Assurance Review	To provide assurance over the management of this project, including risk management, governance and procurement/contract management.	12	7.9	<b>Stage 1 final report issued</b>		Environment: Substantial Compliance: Substantial Impact: Minor	See summary of findings at 2.6 above.

<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	<b>Final report issued</b>		N/A – this was a consultancy review rather than a controls assurance audit.	
<b>Other support</b>							
Client management and support		35	12.5				
Management & development of the delegated Internal Audit service		21	4.2				
<b>TOTAL</b>		<b>235</b>	<b>88.1</b>	<b>38%</b>			



## 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
<b>Substantial</b>	●	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.
<b>Good</b>	●	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.
<b>Satisfactory</b>	●	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.
<b>Limited</b>	●	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.
<b>No</b>	●	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		Definition
Level		
<b>Major</b>	●	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.
<b>Moderate</b>	●	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.
<b>Minor</b>	●	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.

<b>Aspects of Audit Assignments</b>	<b>Outstanding</b>	<b>Good</b>	<b>Satisfactory</b>	<b>Poor</b>
Design of Assignment	0	3	0	0
Communication during Assignments	0	3	0	0
Quality of Reporting	0	3	0	0
Quality of Recommendations	0	3	0	0
<b>Total</b>	<b>0</b>	<b>12</b>	<b>0</b>	<b>0</b>

**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 <b>implemented</b> since last Committee meeting	0	-	2	50%	1	14%	<b>3</b>	<b>25%</b>
Actions due within last 3 months, but <b><u>not implemented</u></b>	0	-	0	-	1	14%	<b>1</b>	<b>8%</b>
Actions due <b><u>over 3 months</u></b> ago, but <b><u>not implemented</u></b>	1	100%	2	50%	5	72%	<b>8</b>	<b>67%</b>
<b>Totals</b>	<b>1</b>		<b>4</b>		<b>7</b>		<b>12</b>	

## ***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.