



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



Date: 11th September 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, three reports have been finalised and fieldwork is underway on a further four assignments representing 44% of the audit plan. The Audit Planning Record (APR) has been issued for one further assignment and fieldwork will commence once agreed by management.

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. There are no customer satisfaction returns at this stage of the financial year.

2.4 Productivity

As at the latest possible date for reporting purposes, current members of the audit team have been delivering 96% productivity against the target of 90%.

2.5 Outstanding audit recommendations

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

At the date of reporting, there are 12 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 essential or important 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.

Disclosure and Barring Service

The Council has a duty of care towards vulnerable members of the community and should request Disclosure and Barring Service (DBS) checks for all employees who are likely to come into contact with these individuals, including children. The Disclosure and Barring Service enables employers to check the criminal records of employees and potential employees, in order to ascertain whether they are suitable to work with vulnerable adults or children.

Testing confirmed that new employees in eligible posts had been subject to the appropriate checks before their start date and re-checks are being completed in accordance with Council policy. Whilst procedures are operating to ensure new posts are evaluated for DBS eligibility and a spreadsheet of DBS-eligible employees is maintained, there is no clear record of all posts in the establishment for which a DBS check applies. Such a record would assist the bi-annual review by HR and ensure that no posts are missed. Taxi licencing testing for new and renewed drivers' licences found that, whilst some record keeping omissions were present, procedures were working as intended. Testing of Operators Licences found that previous DBS checks were being relied upon where a driver's licence had been issued to the same individual in the last 18 months, rather than requiring a new certificate for the operator. It is recommended that this be amended to require up to date evidence on any application, given that such certification is specific to the date of issue.

Whilst the Council complies with most key requirements of the DBS Code of Conduct, there is no 'suitability for ex-offenders for employment' policy which is required by the Code. Arrangements are in place for storage, retention and disposal of DBS data and the Council complies with the Data Protection legislation in this area. Whilst the Council continues to operate as a registered body, counter signatory information should also be checked with the DBS. The Council's leisure contract was found to contain adequate provision for DBS checks of contractor staff.

Based upon these 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	●

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

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	0		As required		
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	0.4		Q3		
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		Q3		
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	0		Q4		

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	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	1.7	Fieldwork in progress			
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	7.7	Fieldwork in progress			
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	4.4	Audit Planning Record 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		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	0.4	Planning			
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	15.5	Final report issued		Environment: Substantial Compliance: Good Impact: Minor	See summary of findings above.
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	3.5	Fieldwork in progress	Q1-Q4		Project options currently being reconsidered based on revised affordability.
Grow on space – Embedded Assurance Review	To provide assurance over the management of this project, including risk management, governance and procurement/contract management.	12	4.6	Fieldwork in progress	Q1-Q4		Currently awaiting ERDF funding decision.

<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.	
Other support							
Client management and support		35	7.3				
Management & development of the delegated Internal Audit service		21	1.4				
TOTAL		235	57.3	24%			

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: 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	-	6	55%	0	-	6	33%
Actions due within last 3 months, but <u>not implemented</u>	0	-	1	9%	2	33%	3	17%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	1	100%	4	36%	4	67%	9	50%
Totals	1		11		6		18	

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.