



HARBOROUGH DISTRICT COUNCIL

INTERNAL AUDIT UPDATE

MARCH 2016

**Date:** 10<sup>th</sup> March 2016

## ***Introduction***

- 1.1 The Welland Internal Audit Consortium provides the internal audit service for Harborough District Council and has been commissioned to provide 235 audit days to deliver the 2015/16 Annual Audit Plan and undertake other work commissioned by the client.
- 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 2015/16**

The Welland Internal Audit Consortium is currently under the management of LGSS (Local Government Shared Services). The Welland Board has set LGSS the objective of delivering at least 90% of the Internal Audit plans for 2015/16 to draft report stage by the end of March 2016.

At the date of writing, six assignments have been finalised, two are at draft report stage, and work is underway on the remaining five assignments. Of the five ongoing assignments, two are in the form of consultancy work or training which will not result in an audit report and much of this work has already been delivered. Therefore, of the assignments resulting in audit reports, the team has delivered 73% of the planned audits to at least draft report stage at the time of reporting. 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 have been returned for two of the assignments completed this year (33%) and all aspects of the audit assignments have been rated as 'good' or 'satisfactory'. 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 94% productivity, thereby exceeding the target of 90%.

## 2.5 **Outstanding audit recommendations**

At the date of reporting, there are 32 agreed management actions which are yet to be confirmed as implemented, a reduction of 5% since the last meeting. An analysis of the implementation of actions is provided in Table 3. Officers have advised that some of these actions have been completed and their updates are reflected in Appendix B, but Internal Audit have not been provided with evidence to confirm the implementation at the time of reporting so all 32 actions remain 'open' at this time, pending further review. Of these actions, two were assessed as 'High Priority' and have been overdue for over three months. Full details of all high and medium priority recommendations overdue for more than three months is provided in **Appendix B**.

## 2.6 **Emerging issues**

Copies of all Internal Audit reports are provided to the Chairman of the Governance and Audit Committee when finalised and presented to the next available committee meeting.

Since the last Governance and Audit Committee meeting, one Internal Audit report has been finalised. A full copy of this audit report is provided in **Appendix C**. Based upon the findings a limited assurance opinion was given for the relevant control frameworks. The basis for the assurance opinions is detailed within the report along with an action plan agreed with management to strengthen existing arrangements.

**Table 1 - Progress against 2015/16 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>
<b>Fundamental Financial Systems</b>							
Financial Systems Key Controls	To provide assurance that controls are in place to mitigate the key risks to the Council in respect of its financial systems.	30	22.7	Fieldwork underway			
Financial Resilience	To review the Council's financial planning arrangements and the inclusion of appropriate contingency plans. To provide challenge to robustness of assumptions within the plans.	10	10.9	Draft report			Draft issued 9 <sup>th</sup> November 2015 – awaiting officer's response.
Capital Programme	To review the Council's Capital Programme and management of risks relating to strategy and governance.	15	11.5	Final report		Sufficient Assurance	Reported to Governance and Audit Committee September 2015.
<b>Governance</b>							
Counter Fraud and Ethics Arrangements	The provision of Counter Fraud training for members and staff, which should incorporate an inclusion of Ethics requirements within the Council.	10	1.2	Fieldwork underway			Training session delivered to staff in January 2016. Member training scheduled for 29 <sup>th</sup> March 2016. Remaining budget to be used to provide pro-active counter fraud support and review.
Assurance Framework	To review the effectiveness of sources of assurance for the Council incorporating an assurance mapping exercise of assurances to the key strategic risks of the Council.	10	9.3	Draft report			Draft issued 17 <sup>th</sup> November 2015 – awaiting management sign off on final draft report.

<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>
<b>IT</b>							
Business Continuity and Third Party Agreements	To review controls relating to ICT Recovery arrangements in respect of the Third Party arrangements for the Council.	15	11.5	Final report		Sufficient Assurance	Reported to Governance and Audit Committee September 2015.
<b>Service delivery</b>							
s.106 Agreements	To review processes in place to maximise income potential from s.106 / CIL agreements for the Council.	15	27.5	Final report		Limited Assurance	See Appendix C
s.106 Agreements Project	To provide independent challenge and review to the s.106 Agreements Project which has been established to address the issues identified by the s.106 Agreement audit report, above.	15	1.7	Fieldwork underway			Consultancy support
Customer Services Data	To review business continuity and data management and security arrangements in respect of the delegated customer series arrangements.	10	10.2	Final report		Sufficient Assurance	Reported to Governance and Audit Committee September 2015.
Licensing	To provide assurance that there are appropriate controls in place to effectively mitigate the risks relating to policies and procedures, applications, appeals, fees and their review, income collection and renewals.	10	10.2	Final report		Substantial Assurance	Reported to Governance and Audit Committee November 2015.
Planning Service Review	To undertake or assess a post implementation review of the Planning Service Review, i.e. to review benefits realisation and the achievement of planned objectives.	10	4.6	Fieldwork underway			
Housing Review	To provide embedded assurance support to the	0	0	Cancelled			

<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>
	internal Housing Project.						
Welfare Reform	To continue to review arrangements for monitoring and mitigating risks associated with Welfare Reform.	0	0	Cancelled			
Waste Management	To continue with the Embedded assurance approach commenced in February 2015. To issue reports at key stages of the project (expected to issue two reports during current year).	20	7.5	(1) Final report		Substantial Assurance	Reported to Governance and Audit Committee November 2015.
				(2) Fieldwork ongoing			Ongoing engagement with project. Second report to be issued in accordance with lifecycle of project and as agreed with the Project Sponsor.
<b>Other support</b>							
Contingency		11	0				
Advice & assistance		2	0.3				
Recommendation follow-up		3	7.4				
Committee work, support & annual report		13	9.4				
Client meetings, liaison & audit planning		15	8.1				
Consortium Management		21	15.5				
<b>TOTAL</b>		<b>235</b>	<b>169.5</b>	<b>72%</b> (excludes 1.1 days for completion of 14/15 audits)			

## 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.

<b>Substantial</b>	There is a sound control framework designed to manage or mitigate risks to the achievement of defined objectives. Testing confirms that the controls are being applied consistently.
<b>Sufficient</b>	The control framework is basically sound but either <ul style="list-style-type: none"><li>• there are minor gaps or weaknesses which mean that some risks are not fully managed or mitigated; or</li><li>• testing provides evidence of non-compliance sufficient to weaken the effect of some controls.</li></ul>
<b>Limited</b>	There are significant weaknesses in key elements of the control framework which mean that significant risks are not managed or mitigated. Testing demonstrates significant levels of non-compliance with prescribed processes and procedures
<b>No</b>	The controls identified are not sufficient to manage/mitigate identified risks to the achievement of defined objectives. Testing demonstrates high levels of non-compliance with prescribed processes and procedures.

**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.

Aspects of Audit Assignments	N/A	Outstanding	Good	Satisfactory	Poor
Design of Assignment			1	1	
Communication during Assignments			1	1	
Quality of Reporting			1	1	
Quality of Recommendations			1	1	
<b>Total</b>			<b>4</b>	<b>4</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	-	-	1	5%	-	-	1	<b>3%</b>
Actions due within last 3 months, but <b><u>not implemented</u></b>	-	-	2	11%	2	18%	4	<b>13%</b>
Actions due <b><u>over 3 months</u></b> ago, but <b><u>not implemented</u></b>	2	100%	16	84%	9	82%	27	<b>84%</b>
<b>Totals</b>	<b>2</b>	<b>100%</b>	<b>19</b>	<b>100%</b>	<b>11</b>	<b>100%</b>	<b>32</b>	<b>100%</b>

## ***Limitations and Responsibilities***

### ***Limitations inherent to the internal auditor's work***

The consortium is undertaking a programme of work agreed by the council's senior managers and approved by the Audit & Governance 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 the consortium'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 the consortium'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.

The consortium 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.