



**Internal Audit Update
March 2020**

HARBOROUGH DISTRICT COUNCIL



Date: 4th March 2020

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 2019/20 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 2019/20

LGSS has been set the objective of delivering at least 90% of the Internal Audit plans for 2019/20 to draft report stage by the end of March 2020.

At the date of writing, seven reports have been finalised and fieldwork is underway on all remaining assignments, representing 100% of the revised audit plan.

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, five questionnaires had been returned all 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 94% 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 21 agreed management actions that are due but yet to be confirmed as implemented.

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**

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, two Internal Audit reports have been finalised and the key findings are summarised below.

Corporate (Property) Investments




The Council's 2019/20 Capital Strategy states that it has commenced commercial property investments to generate positive revenue returns. It goes on to state that the Council will be prioritising part of its capital strategy in future for commercial asset acquisition and/or development based on robust investment appraisal and evaluation principles. The audit seeks to provide assurance that the Council has a sound investment strategy in place that complies with statutory guidance and balances risk and return. To date there has been one commercial property investment, executed through the Council's wholly owned company. The audit also examined two ongoing residential development projects focused primarily on generating capital receipts, and investment of £1.5m in property funds.

Based on the audit findings, the Council's strategic framework could be improved by ensuring that the draft Property Investment Strategy is finalised and approved as soon as possible together with clear arrangements for monitoring and reporting performance and overall risk exposure. There is also scope to improve compliance with the relevant professional and statutory guidance in respect of non-financial investments.

Appropriate risk assessment and due diligence processes have been applied in respect of the investments and projects examined by internal audit. However, record keeping could be improved to ensure that there is a clear audit trail between the business case and supporting information and records, including professional advice and valuations. The business case and risk registers in respect of the residential development projects should be updated to reflect the latest position and any changes to funding requirements reported to Members for approval.

A robust selection and approval process was applied in respect of property fund investments, although the short-listing and final decision making process was not fully recorded. Furthermore, the majority of the sum allocated in the 2019/20 budget has not yet been fully invested leading to a significant shortfall in expected returns. The approach to property fund investments should be reviewed as part of the 2020/21 budget setting process.

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

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

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

Community safety

Harborough District Council (HDC) has a dedicated community safety team that works in partnership with other agencies to reduce crime and anti-social behaviour (ASB) to improve the quality of life for all in the District. Internal Audit sought to provide assurance over the effective management of this key risk for the Council, including monitoring, partnership working and initiatives.

The Council has an ASB Policy that sets out the way in which it tackles anti-social behaviour as well as the partnership approach in tackling the ASB. The policy was presented and approved by Cabinet in September 2019.

ASB complaints are recorded, monitored and managed through 'Sentinel' - a web-based ASB case management system currently used across LLR, accessible to a range of partner organisations. Internal Audit reviewed a sample of ASB complaints received in 2019/20 and found all were acknowledged and responded to in a timely manner applying an effective multi-agency approach to resolution in all applicable cases.

The Community Safety Partnership (CSP) is made up of statutory services that work together to protect local communities from crime and disorder and deal with local issues such as anti-social behaviour, protecting victims and reducing re-offending. The Partnership undertakes a variety of campaigns and arrange various initiatives to promote safer communities and reduce ASB as well as increasing awareness of the services available.

The CSP has a three year strategy setting out its priorities. The priorities are reviewed on an annual basis and with specific action plans for each year. Progress is discussed at the Scrutiny Panel (Communities) meetings. In addition to this, highlight reports are also prepared and presented to the Leicester, Leicestershire and Rutland Police and Crime Commissioner every six months.

Performance is monitored throughout the year using the TEN Performance Management System and performance against the Corporate Delivery Plan is reported to the Scrutiny Panel (Performance) on a quarterly basis.

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

Assurance Opinion		
Control environment	Substantial Assurance	●
Compliance	Good Assurance	●
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.

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

Table 1 - Progress against 2019/20 internal audit plan

Assignment	Assurance sought	Budget days	Actual days	Status	Planned start	Assurance rating	Comments
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	3.5	In progress	As required		Training sessions delivered to all staff and Full Council.
Corporate investments	To provide assurance over the Council's procedures for commercial investments, including approval mechanisms, robust due diligence checks and risk assessment/management.	20	19.2	Completed	Q3	Controls: Satisfactory Compliance: Satisfactory Impact: Minor	See para 2.6 above.
Freedom of information requests	To provide assurance over the Council's procedures for handling formal information requests and to assess compliance with these in practice, based on sample testing. To further assess whether information requests could be avoided by greater transparency and use of website.	10	8.5	Completed	Q2	Controls: Good Compliance: Good Impact: Minor	Reported to Governance & Audit Committee 10th December 2019.
ICT disaster recovery	To provide assurance over the status of the outstanding recommendation from 2012/13 and whether it remains valid and fit for purpose.	10	0.8	In Progress	Q4		
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	20	Fieldwork in progress	Q4		

Assignment	Assurance sought	Budget days	Actual days	Status	Planned start	Assurance rating	Comments
Agency staff – IR35 compliance	To provide assurance over the Council’s consistent compliance with IR35 legislation in relation to agency staff.	8	12.2	Completed	Q1	Controls: Good Compliance: Satisfactory Impact: Minor	Reported to Governance & Audit Committee 17 th October 2019.
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	0.7	Fieldwork in progress	Q3		
Payroll system (consultancy)	To provide consultancy support on the implementation of the new payroll system.	1.5	1.5	Postponed to 2020/21	N/A		Audit postponed to 2020/21 to coincide with the Council’s timetable for seeking an alternative payroll provider. Balance of budget (8.5 days) reallocated to other audits.
The People: A healthy, inclusive and engaged community.							
Effective use of consultation	To provide assurance over the Council’s use of consultation to inform decision making and ensure that a co-ordinated and joined up approach is adopted within the Council, and with partners, to ensure that consultations are carried out in the best possible way.	10	10	Completed	Q2	Controls: Satisfactory Compliance: Good Impact: Minor	Reported to Governance & Audit Committee 10 th December 2019.
Safeguarding	To provide assurance that the Council is fulfilling its responsibilities in safeguarding the most vulnerable members of the community.	10	9.3	Completed	Q1	Controls: Substantial Compliance: Substantial Impact: Minor	Reported to Governance & Audit Committee 17 th October 2019.

<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>
The Place: An enterprising, vibrant place.							
Homelessness Reduction Act	To provide assurance over compliance with the revised legislation and ensuring the Council is fulfilling its statutory duties.	12	13.5	Draft report issued	Q4		
Community safety	To provide assurance over the effective management of Community Safety arrangements, including monitoring, partnership working and making effective use of information sharing and initiatives.	12	11.2	Complete	Q3	Controls: Substantial Compliance: Good Impact: Minor	See para 2.6 above.
Your Council: innovative, proactive and efficient.							
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	2.1	To be carried forward to 2020/21	Q1-Q4		Internal Audit to re-engage with the project in October 2020 following completion of the final business case.
Grow on space – embedded assurance review	To provide assurance over the management of this project, including risk management, governance and procurement/contract management.	15	10	Delivery stage report completed	Q1-Q4	Controls: Good Compliance: Satisfactory Impact: Minor	Reported to Governance & Audit Committee 17th October 2019.
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	9.5	Draft report issued	Q3		
Smarter Services programme (consultancy)	To provide consultancy support during the transformation of services and processes – to ensure key controls are considered in service redesign.	5.5	1.1	In Progress	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>
Other support							
Contingency - to provide assurances over new projects / initiatives, to be allocated during the year (<i>all now allocated</i>)		0	0				
Client management and support - support and reporting to Governance and 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.		33	19.7				
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	12.9				
TOTAL		235	153.2	71%			

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	2	3	0	0
Communication during Assignments	4	1	0	0
Quality of Reporting	2	3	0	0
Quality of Recommendations	1	4	0	0
Total	9	11	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	-	2	18.2%	1	9%	3	12.5%
Actions due within last 3 months, but <u>not implemented</u>	1	50%	5	45.4%	4	36.4%	10	41.7%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	1	50%	4	36.4%	6	54.6%	11	45.8%
Totals	2	100%	11	100%	11	100%	24	100%

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.