

**Appendix A**



**Internal Audit Update  
July 2018**

**HARBOROUGH DISTRICT COUNCIL**



**Date: 25<sup>th</sup> July 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, one report has been finalised, one assignments is at draft report stage and fieldwork is underway on a further three assignments representing 31% of the audit plan. The Audit Planning Record has been issued for a further two 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 early 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, 41 actions arising from Internal Audit reports have been implemented.

At the date of reporting, there are 18 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, six Internal Audit reports have been finalised, three of which are assurance audits and the key findings are summarised below.

### Financial Systems Key Controls 2017/18

The Council operates a number of financial systems designed to ensure that transactions are recorded in a timely, accurate and complete manner, free from fraud or error. These systems are often referred to as 'Key' or 'Fundamental' financial systems. The S151 Officer is required to include a statement in the Council's annual Statement of Accounts to certify that he has kept proper accounting records that are up to date. Internal Audit control evaluation and compliance testing supports the S151 Officer in exercising this duty.

Appropriate controls are in place for granting and removing access to key financial IT systems and a review of current users identified that effective controls are consistently applied. It is understood that privileged user access reporting was due to be explored during the eFinancials system upgrade; it is however noted, that this action had not been fully implemented at the time of reporting. Financial system recovery plans are due to be reviewed and updated by 30th September 2018; as such, this action will continue to be followed up as part of the standard Internal Audit process.

Some automated controls are not yet fully functional following implementation of a new payroll system in June 2017. However, all payroll transactions were found to be accurate and complete, and manual controls are in place to ensure that pay is adjusted at the relevant trigger points in respect of long term sickness absence.

Bank reconciliations are completed on a monthly basis and compliance testing confirmed that controls are operating as intended. It is noted that new and amended ledger codes had not been appropriately authorised in all relevant cases and, whilst it is understood that reliance may be placed on the effectiveness of compensating controls such as monthly budget monitoring, compliance with the established control framework would improve assurance over the integrity of the Council's financial records.

Appropriate procedures are in place for the verification and validation of supplier bank details. Whilst a separation of duties does exist for the BACS payment process, it is understood that current access levels could enable four members of the Finance team to complete the whole BACS payment process independently. It should be noted that no errors and / or irregularities were identified during the audit.

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

Assurance Opinion		
<b>Control environment</b>	Satisfactory	●
<b>Compliance</b>	Satisfactory	●
<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.

#### Local Plan - Embedded Assurance 2017/18

The Harborough Local Plan 2011 to 2031 and its supporting documents were submitted to the Secretary of State via the Planning Inspectorate on 16th March 2018. Submission of the Local Plan represents the start of the examination process which will determine whether the Council's Local Plan is 'sound'.

Project stakeholder meetings are being held on a regular basis and appropriate management actions have been taken to address the key issues identified during these meetings. It is evident that the benefits that should be realised from this project are clearly understood by officers and project plans are targeted at ensuring these are achieved through the delivery of a robust, sound and informed Local Plan.

During the course of the project, a number of resourcing issues have been identified, all of which have been reported through the appropriate channels. Additional resource has been acquired to manage the increase in workload and mitigate the risk of a delay in the submission process; and revisions to the project timetable have been approved in accordance with delegated decision making powers. It is also understood that the Council has appointed an independent Programme Officer to assist the Inspector in organising and managing the administrative and procedural matters in relation to the examination process.

Project risks are clearly defined to ensure that the potential effects of each risk are clearly understood. Whilst opportunities have not been assessed during the course of the project, it is noted that risks are scored in line with the Council's Risk and Opportunity Management Framework, which provides a structured and coherent approach to identifying, assessing and managing risk.

Procurement has been undertaken in accordance with good practice during the financial year to date and financial pressures have been escalated in accordance with governance arrangements. It is noted that additional funding has been approved during the course of the project, and as such; a virement of £83k will be processed at year-end to meet the total cost of project delivery.

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

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

There were no recommendations arising from this review.

Leisure Services Project – Embedded Assurance 2017/18

Harborough’s Leisure Options project will determine the shape of future leisure provision delivered from the leisure centres within Market Harborough and Lutterworth.

The overall aim of the project is to have suitable Leisure Services in place at the expiry of the current contract in March 2019. Phase one of the project involved a detailed options appraisal and was completed in August 2017. Phase two is the delivery stage of the preferred option which was approved by Full Council on 18th September 2017. The approved option is a Design, Build, Operate and Manage (DBOM) contract involving a new build at Market Harborough Leisure Centre and a refurbishment of the Lutterworth Sports Centre. The estimated capital cost of the preferred option is up to £21.6m with £2m financed from capital receipts and the remaining £19.6m financed from prudential borrowing. Annual revenue costs are forecast to reduce from £135k to £102k.

At the time of reporting it is evident that the project is being effectively managed and remains on course to procure a new contract to coincide with expiry of the current arrangements. Project documentation could be strengthened in some areas and there is a need to finalise documentation for the appointment of various consultants. Action is also needed to ensure that the project management budget has been clearly defined and that costs are being effectively monitored and reported.

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

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

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

These findings represent the position at the time of reporting. Internal Audit continues to engage with the leisure project in 2018/19 and is aware that options and timescales are currently being reconsidered following feedback from bidders on the affordability of the project. Further Internal Audit reports will be issued in due course. 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	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	<b>Planning</b>	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	<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		

<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>
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	0.1	<b>Fieldwork underway</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	1.4	<b>Draft audit planning record (APR) issued</b>			

<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>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	0		Q2		
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		Q3		
<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	11.8	<b>Fieldwork complete</b>			



<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>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	2.7	<b>Fieldwork in progress</b>	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	3.3	<b>Fieldwork in progress</b>	Q1-Q4		Currently awaiting ERDF funding decision.
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	4.9	<b>Draft report issued</b>			
<b>Other support</b>							
Client management and support		35	3.1				
Management & development of the delegated Internal Audit service		21	1.1				
<b>TOTAL</b>		<b>235</b>	<b>34</b>	<b>14.6%</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		
Level		Definition
<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: Implementation of Audit Recommendations**

	'High/Urgent' priority recommendations		'Medium/Important' priority recommendations		'Low/Standard' 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	6	75%	15	60%	20	77%	<b>41</b>	<b>69.5%</b>
Actions due within last 3 months, but <b><u>not implemented</u></b>	1	12.5%	6	24%	3	11.5%	<b>10</b>	<b>17%</b>
Actions due <b><u>over 3 months</u></b> ago, but <b><u>not implemented</u></b>	1	12.5%	4	16%	3	11.5%	<b>8</b>	<b>13.5%</b>
<b>Totals</b>	<b>8</b>	<b>100%</b>	<b>25</b>	<b>100%</b>	<b>26</b>	<b>100%</b>	<b>59</b>	<b>100%</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.