



**Internal Audit Update
December 2019
HARBOROUGH DISTRICT COUNCIL**



Date: 10th December 2019

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, six reports have been finalised (one of which was deferred from 2018/19) and fieldwork is underway on a further five assignments, representing 77% 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, six 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 95% productivity against the target of 90%.

2.5 Outstanding audit recommendations

Since the last Governance and Audit Committee meeting, seven 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 3**. 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, two Internal Audit reports have been finalised and the key findings are summarised below.

Freedom of information requests

The Freedom of Information Act 2000 gives individuals the right to access any recorded information held by a public authority. The Council reviewed its information policies and procedures in readiness for the GDPR and has developed an Information Governance Policy, Freedom of Information Procedure and Exemption Guidance, which cover the process of responding to and dealing with information requests.

Based on internal audit's findings, there is scope to improve Member and staff awareness of freedom of information (FOI) requests. The newly revised FOI training module, now included in corporate induction, is yet to be undertaken by existing staff and Members.

Audit sample testing demonstrated that all requests received a prompt acknowledgement of receipt; in most cases on the same day that the request was received. In cases where disclosure was not considered appropriate, the requester was provided with reasons and informed of their right to request an internal review of the decision. However, there is scope to improve compliance with the 20 day statutory time limit for responding to requests. Sample testing identified 16% of cases exceeded the statutory limit. A wider review of the information log was carried out to establish overall compliance and showed that the limit was exceeded in 14% of cases between January 2019 and September 2019.

Audit of two cases subject to internal review did not identify evidence of involvement or oversight by a senior manager. It is therefore recommended that internal review requests should be formally signed off by the relevant Head of Service or Joint Chief Executive prior to release.

The Council publishes FOI disclosure logs on its website. Whilst disclosure logs provide details of the number of requests received and the nature of the requests, no actual responses are published on the website. Officers may wish to consider publishing responses, suitably redacted, to enable members of the public to search through the disclosure log and the responses before making a new request. This may assist in reducing the volume of FOI requests and thereby minimise the resource implications.

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

Assurance Opinion		
Control environment	Good	●
Compliance	Good	●
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.

Effective use of consultation

Harborough District Council has a duty to consult with its residents on major plans, significant changes to service delivery and the manner in which the budget is spent. Consultations may also be initiated where no statutory duty exists, but there is benefit to doing so. Responsibility to undertake consultations lies with service managers, supported by the Communications Team. Where public sector organisations consult with members of the public, there is an expectation that they will apply the Gunning Principles of Consultation, which state that:

- (i) consultation must take place when the proposal is still at a formative stage;
- (ii) sufficient reasons must be put forward for the proposal to allow for consideration and response;
- (iii) adequate time must be given for consideration and response; and
- (iv) the output from the consultation must be conscientiously taken into account.

In overall terms, this review has identified that an appropriate level of evidence exists to demonstrate that these principles are adhered to when members of the public are consulted. Testing of a sample of five consultations confirmed that no decisions had been made prior to the consultation being initiated and sufficient time was given for residents to respond. The exercise has, nevertheless, identified a number of opportunities to improve arrangements, notably through the implementation of an Engagement Strategy incorporating the consultation process and a need to increase the public reporting of actions taken in response to the output of consultations undertaken.

The Council has recently undergone some organisational changes to create a greater focus on engagement and plans are being prepared to develop the engagement agenda. Given that consultations are an integral part of engaging with residents, it is anticipated that the findings and recommendations contained within the Internal Audit report will be used in this process.

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

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

In order to further improve the controls and compliance, ten 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	1.9	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.	15	2.3	Fieldwork in progress	Q3		
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	8.4	Completed	Q2	Controls: Good Compliance: Good Impact: Minor	See para 2.6 above.
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	Fieldwork in progress	Q4		
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.

<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>
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	Not started	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 contingency.
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	See para 2.6 above.
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 17th October 2019.
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	0	Not started	Q4		

Assignment	Assurance sought	Budget days	Actual days	Status	Planned start	Assurance rating	Comments
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	0.7	Fieldwork in progress	Q3		
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	Planning	Q1-Q4		Internal Audit to re-engage with the project in Feb/Mar 2020 following completion of the options appraisal and feasibility study.
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	2.5	Fieldwork in progress	Q3		
Other support							
Contingency - to provide assurances over new projects / initiatives, to be allocated during the year.		20.5	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	11				

<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>
	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	10.5				
TOTAL		235	82.4	35%			

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	1	50%	3	43%	3	43%	7	37%
Actions due within last 3 months, but not implemented	0	-	2	28.5%	0	-	2	10.5%
Actions due over 3 months ago, but not implemented	1	50%	2	28.5%	7	57%	10	52.5%
Totals	2	100%	7	100%	10	100%	19	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.