



INTERNAL AUDIT REPORT



ASSURANCES FROM PARTNERS ON FINANCIAL RISKS 2016/17

Issue Date:	14 March 2017	Issued to:	Simon Riley, Head of Finance & Commercial Services
Author:	Trevor Croote		Beverley Jolly, Corporate Director
			<i>Cllr Michael Rook, Chair of Governance and Audit Committee (final report only)</i>



ASSURANCES FROM PARTNERS ON FINANCIAL RISKS 2016/17

EXECUTIVE SUMMARY

1. Introduction and overall opinion

The model of service delivery adopted by the Council includes a number of shared service, partnership and delegation arrangements. Some of these arrangements involve third party organisations providing key financial services such as local taxation, housing benefits and payroll. It is important that the Council obtains assurances that these organisations have effective controls in place to safeguard the Council's assets and meet its strategic and operational requirements.

Internal Audit has concluded that the governance arrangements in respect of the revenues and benefits partnership are robust. There are formal governance structures in place with regular performance reporting and scrutiny of the service. Arrangements could be further strengthened through formal consideration and approval of internal audit plans by the joint committee or management board.

Governance of the payroll delegation is less formal but commensurate with the nature of the service and relative risks.

Both arrangements would benefit from clarification of insurance cover in respect of any losses arising from fraud or dishonesty by employees of partner organisations.

The Council's annual governance review could be strengthened by obtaining assurance statements for all key partnerships and delegations and tailored to include confirmation of compliance with specific conditions in the agreements.

Based on these findings, the framework of controls currently in place provide **Sufficient Assurance** that the identified risks have been appropriately mitigated. Detailed findings are set out in section 2 below. The audit was carried out in line with the scope set out in the approved audit planning record (APR). The assurance opinion is based upon testing of the design of controls to manage the identified risks and testing to confirm the extent of compliance with those controls, as summarised in Table 1 below.

Table 1 – Assurance opinion

Internal Audit Assurance Opinion	Direction of Travel				
Sufficient Assurance	N/A				
Risk	Design	Comply	Recommendations		
			H	M	L
Risk 1 - Lack of assurance that key financial risks in respect of services provided by third party organisations are being effectively managed and controlled.	Sufficient Assurance	Sufficient Assurance	0	0	3
Total Number of Recommendations			0	0	3



2. Summary of findings

It was agreed with management that the audit would focus on the effectiveness of the Council's arrangements for obtaining assurances in respect of the revenues and benefits partnership and payroll delegation agreement.

Risk 1: Lack of assurance that key financial risks in respect of services provided by third party organisations are being effectively managed and controlled.

Revenues & benefits partnership

A formal partnership agreement is in place dated 2011 and was varied in 2014 to change the percentage contributions from each partner. The agreement includes specific provisions in respect of key risk areas including data protection, insurance and performance monitoring. Whilst the agreement does not itself set performance targets it states that the joint committee has the power to set goals and review performance. There is no direct reference to internal audit or internal controls, but the agreement states that the Treasurer is responsible for compliance with the requirements of section 151 of the Local Government Act 1972 and the Accounts & Audit Regulations. These include the requirement to maintain an effective internal audit service and the agreement states that the joint committee is responsible for receiving audit reports. The agreement does not include any reference to business continuity arrangements, although this issue was reported by Internal Audit in the 2015/16 report 'Business Continuity of Third Parties' which included recommendations for improvement and these are not therefore repeated in this report.

Partnership governance arrangements are robust. There is a Joint Committee with a formal constitution and equal representation from each partner council. The detailed powers of the committee are set out in the constitution and include:

- setting and reviewing progress and performance goals;
- approving, modifying or amending the terms of reference;
- ratifying and amending operational policies;
- approving, modifying or amending the draft annual business plan and budget;
- receiving audit reports;
- promoting the achievement of best value; and
- providing member councils with an annual report on activities.

There is also a management board made up of senior officers (usually director level) of each council which meets monthly.

Internal Audit review of agendas, minutes and reports for 2016 confirmed that the management board meets monthly and the Joint Committee met five times (four routine meetings and one annual meeting). Performance reporting is a standard agenda item for both the board and Joint Committee. Performance reports are comprehensive and include a broad range of performance indicators, including collection rates (council tax and NNDR); housing benefit processing speed; caseload analysis; and an overall performance dashboard for each council. There is also a narrative summary of comparative performance, details of fraud investigation activity and overpayment levels.

The agreement includes a requirement for the host council (Hinckley & Bosworth District Council) to maintain adequate insurance cover in respect of public liability, employer's liability, assets and premises. There is no specific requirement to include fidelity or crime cover in the event of fraud or dishonesty by employees. In practice, staff are employed directly by each partner council and Harborough has 'crime' insurance cover for its own staff up to £5m.



This policy indicates that cover includes people ‘hired or borrowed ... from another employer’. Consequently, it is possible that any losses accruing to Harborough District Council arising from the dishonesty of staff not directly employed by the Council may still be covered by its own insurance. However, it would be sensible to clarify this and ensure that appropriate insurance cover is in place across the partnership (**see recommendation 1**).

Internal audit of the partnership is the responsibility of the section 151 officer of the host council and is currently provided by PwC. The annual internal audit plan is approved by the audit committee of the host council only. Compliance with the Public Sector Internal Audit Standards is referred to in various internal audit reports provided to the host council, including the internal audit charter and annual plan.

Based on review of the 2015/16 internal audit report, full audits were undertaken on council tax and NNDR but only a process review of housing benefits. Testing did not include system access and security controls or business continuity arrangements, although these may have been covered as part of separate audits. The 2016/17 audit plan indicates that housing benefits will be audited annually in future but that NNDR and council tax will be audited once every two years. Whilst there is no formal requirement in the partnership agreement for annual audits, it would be good practice for the partnership board or joint committee to consider and approve those aspect of the internal audit plan that relate to revenues and benefits and satisfy itself regarding the scope and frequency of future audit work (**see recommendation 2**).

Payroll delegation

A formal delegation agreement has been in place with Leicester City Council (LCC) since 2011 and was updated in June 2015. The agreement is open-ended but can be terminated on 12 months’ notice from either side or on such terms as agreed by both parties. It includes specific provisions in respect of data protection, insurance and performance monitoring, although the specified performance standards are quite general in nature. Internal audit and scrutiny provisions are also included; any internal audit reports are to be made available to the council although there is no reference to the scope or frequency of internal audit work. There is no requirement to provide any other form of assurance regarding internal controls although there is a requirement to cooperate with internal audit of both parties and provide ‘such information as is reasonably required’. As noted above, business continuity arrangements have been covered by a separate audit.

There are no formal governance arrangements for the payroll delegation. This is partly due to the nature of the arrangement in that the Council has formally delegated responsibility to LCC rather than delivering the service in partnership. In addition, the service largely consists of data processing functions and is therefore lower risk from a strategic management perspective meaning governance arrangements can be relatively light touch.

In practice, day-to-day governance is exercised through routine operational controls (e.g. checking of payroll reports and reconciliations) and close working relationships between the Council’s payroll officer and LCC’s payroll team. Formal meetings at a more senior level are held on an ad-hoc basis only. For example, to discuss current proposals for a new payroll system. There are no routine performance or strategic management meetings, although this relatively informal approach is considered commensurate with the nature of the service and relative risk.

As noted above, the delegation agreement includes a number of general performance indicators covering:

- keeping abreast of market developments;
- customer satisfaction;
- timeliness and accuracy; and
- openness to suggestions for improvement.



Officers stated that no performance information is provided as a matter of routine, although all key controls and data inputs, with the exception of annual parameter updates, are undertaken in-house. In addition, most 'customer' interactions and queries are directed to the Council's own payroll officer rather than the LCC payroll team. Consequently, there is limited scope to develop meaningful KPIs or SMART targets for those aspects of the service provided by LCC.

The agreement includes a requirement for LCC to maintain adequate insurance cover in respect of employer's liability, public liability and professional indemnity. Again, there is no specific requirement to include fidelity or crime cover in the event of fraud or dishonesty by LCC employees (**see recommendation 1**).

Two LCC internal audit reports have been issued in 2016/17 covering leavers and general payroll controls with assurance ratings of 'full' and 'substantial' respectively. Whilst testing did not specifically include Harborough transactions, the Head of Internal Audit at LCC confirmed that most controls are applicable to both LCC and Harborough payrolls. Review of these reports indicated that some key controls may not have been covered by the LCC internal audit work, although these are included in the Welland Internal Audit review of key financial systems.

Annual governance review

As part of the overall assurance framework and annual review to support preparation of the Council's Annual Governance Statement, the Head of Finance obtains formal assurance statements from all heads of service. These statements provide assurances in a number of areas including risk management, compliance with internal procedure rules, effective operation of key controls etc. An annual statement is provided in respect of the revenues and benefits partnership but not the payroll delegation and there are no specific assurances tailored to these arrangements (**see recommendation 3**).

Based upon these findings, the rating for the design and operation of controls in respect of this risk is **sufficient assurance**.

3. Action Plan

The Action Plan at Appendix 2 provides a number of recommendations to address the findings identified by the audit. If accepted and implemented, these should positively improve the control environment and aid the Council in effectively managing its risks.

4. Limitations to the scope of the audit

This is an assurance piece of work and an opinion is provided on the effectiveness of arrangements for managing only the risks specified in the Audit Planning Record.

The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.



Action Plan

Appendix 1

Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
R1	Neither the revenues and benefits partnership nor the payroll delegation requires fidelity guarantee or crime insurance cover and it is currently not clear whether the Council's own insurance covers acts of fraud or dishonesty by staff employed by partner organisations. This increases the risk of uninsured losses arising from fraud and corruption.	Clarify whether the Council's own insurance arrangements cover the risk of losses arising from the dishonesty of staff employed by other Councils. If not, assurances should be obtained from partner organisations that such losses are appropriately insured.	Clarification will be obtained from the insurers, and the partner organisations if required.	Low	Financial Services Manager	30 June 2017
R2	The scope and frequency of internal work related to the revenues and benefits partnership is not currently subject to formal consideration or approval by the joint committee or partnership board.	Those aspects of the annual internal audit plan for the host council that specifically relate to or impact on the revenues & benefits partnership should be reviewed and approved by the joint committee and/or partnership board. The board should satisfy itself that the scope and frequency of audit work is sufficient and seek confirmation that future planned internal audit work will include review and testing of key risk areas such as system access and security controls and business continuity arrangements.	Agreed	Low	Corporate Director (BJ)	30 September 2017



Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
R3	Assurance statements provided as part of the annual governance review do not include the payroll delegation and are not tailored to provide specific assurances for key controls and conditions set out in the respective agreements.	The annual governance review should include requests for assurance statements from all key partnership and delegation arrangements, including payroll. Assurances should cover the operation and effectiveness of key controls and specific assurances in respect of data protection, business continuity and insurance cover.	Agreed – will be introduced as part of the 2016/17 Annual Governance Statement	Low	Head of Finance & Corporate Services	30 June 2017



Appendix 2

Glossary

The Auditor's Opinion

The Auditor's Opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The table below explains what the opinions mean.

Level	Design of Control Framework	Compliance with Controls
SUBSTANTIAL	There is a robust framework of controls making it likely that service objectives will be delivered.	Controls are applied continuously and consistently with only infrequent minor lapses.
SUFFICIENT	The control framework includes key controls that promote the delivery of service objectives.	Controls are applied but there are lapses and/or inconsistencies.
LIMITED	There is a risk that objectives will not be achieved due to the absence of key internal controls.	There have been significant and extensive breakdowns in the application of key controls.
NO	There is an absence of basic controls which results in inability to deliver service objectives.	The fundamental controls are not being operated or complied with.

Category of Recommendations

The Auditor prioritises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

Priority	Impact & Timescale
HIGH	Management action is imperative to ensure that the objectives for the area under review are met.
MEDIUM	Management action is required to avoid significant risks to the achievement of objectives.
LOW	Management action will enhance controls or improve operational efficiency.