



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



Date: 17th October 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, four reports have been finalised (one of which was deferred from 2018/19) and fieldwork is underway on a further four assignments, representing 50% of the 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, two questionnaires had been returned 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, nine actions arising from Internal Audit reports have been implemented.

At the date of reporting, there are 11 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 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, four Internal Audit reports have been finalised and the key findings are summarised below.

Cyber Security

The audit of Cyber Security was included in the 2018/19 Internal Audit Plan but was deferred to 2019/20 at the request of management – pending the Council's ongoing work in this area.

The National Crime Agency estimates that the cost of cyber crime to the UK economy is billions of pounds per annum – and increasing. Councils must ensure that they have suitable controls in place to protect their systems and data and to enable recovery of systems in the event of an attack.

The Council has recognised the threat of cyber crime and has implemented a number of detective and preventative controls to actively manage the risks. A number of further developments are planned and in progress. Whilst at the time of audit these remained yet to be fully implemented, it is evident that security is being prioritised and much work is planned for aligning controls with latest best practice.

A recent IT health check was commissioned by the Council and this highlighted a number of high risk gaps and vulnerabilities which have been subject to a prioritised work plan for the IT team. It is noted that the majority of high risk issues identified in the health check are marked as addressed in the action plan, at the time of reporting. Internal audit cannot provide technical assurance that all associated risks have now been addressed but assurance is taken from Council plans to commission a further health check to confirm the updated position and any remaining issues.

A number of policies, including the ICT security policy and patching and password policies, require review and updating. The management of access to the network also requires further strengthening. User administration is currently reliant upon notifications which can be inconsistent and do not support timely removal or amendment to users' access rights upon leaving or changing roles within the Council.

No training has been rolled out to network users – officers or Members – increasing the risk that the 'first line of defence' may fail in the case of cyber attack attempts due to a lack of user awareness of risks and controls. Training should be delivered as a priority, with regular refresher items to ensure users remain alert to threats. It is noted that the Council's senior management team participated in a cyber crime 'stress test' session in 2018 which provided

an opportunity to raise awareness of the risks and test out assumptions about system controls.

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

Assurance Opinion	
Control environment	Satisfactory ●
Compliance	Satisfactory ●
Organisational impact	Moderate ●

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

Safeguarding

Safeguarding, in its broadest sense, is defined as ‘to protect from harm’. Harborough District Council (HDC) has a number of duties to safeguard children and vulnerable adults. The purpose of this audit was to provide assurance that the Council has adequate controls in place to fulfil its responsibilities.

Robust policies exist to cover the Council’s safeguarding arrangements for children and adults and are subject to regular review and formal approval by the Corporate Management Team (CMT). Both safeguarding policies have recently been reviewed and new versions are in draft format awaiting sign off by CMT.

The Council works with Leicestershire Safeguarding Boards, primarily, as well as other agencies, to ensure safeguarding is embedded within all services throughout the organisation. Appropriate information sharing agreements are in place and the safeguarding referrals are handled in accordance with the Council's procedures and progressed to the relevant agencies where applicable.

The Council has appointed a Lead Professional Officer and Designated Safeguarding Officers (DSO) in each service area who are responsible for managing and co-coordinating the Council’s safeguarding activities and ensuring that safeguarding concerns are raised promptly with the relevant agencies.

The Council also has a duty to ensure that all elected Members comply with the Council’s Safeguarding Policy and consider the welfare of all children, young people and vulnerable adults whilst undertaking all services and functions. The audit identified a lack of formal training received by Members, and following the recent elections, arrangements have been made for rolling out the safeguarding training to Members.

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

Assurance Opinion		
Control environment	Substantial	●
Compliance	Substantial	●
Organisational impact	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.

Agency staff IR35 compliance

IR35 is intended to stop ‘disguised employment’ whereby staff are appointed ‘off payroll’ through companies or similar trading arrangements that avoid the need to make tax and other deductions at source or to pay employer’s national insurance contributions. The employee is also potentially able to benefit from a reduced tax bill. IR35 has been in place since 2000 but from April 2017 the responsibility for determining whether the rules apply in public sector organisations shifted from the contractor to the hiring organisation. Penalties for non-compliance include repaying HMRC the tax and national insurance due and a fine ranging between 30% and 100% of the value of the tax due.




The Council has good arrangements for the identification and assessment of cases within the scope of IR35 with established procedures to assess whether temporary and interim posts are within scope of the IR35 regime.

Reliance is placed on management being aware of their responsibilities and referring to Human Resources (HR) or Finance Business Partners to begin the process. Whilst there are documents for managers to access, some have not been updated since the implementation of the legislation in 2017 therefore, this could be strengthened with amendments and new published information to increase managers’ awareness of specific types of appointment and when to refer for further assistance.

Monitoring and recording of cases and retention of documentary evidence is undertaken predominantly by the finance team with HR involved in the initial process of temporary resourcing. However, sample testing found some gaps in records and evidence kept, which may increase the risk of incurring financial penalties should HMRC request to see documentary evidence in future, therefore the recruitment process should not continue until all evidence has been obtained.

For any appointments made through employment agencies it is the Council’s responsibility to inform the agency of the IR35 status of each appointment. Whilst this was evidenced for some posts at the time of appointment, testing revealed that there are gaps or evidence retained was not specifically in relation to IR35 status outcomes.

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

Assurance Opinion		
Control environment	Good	
Compliance	Satisfactory	
Organisational impact	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.

Grow on space – embedded assurance (delivery stage)

The development of “Grow On” space is included within the Council’s Corporate Plan to support the growth and retention of businesses in Harborough district and help achieve the Council’s key corporate objective of developing an enterprising, vibrant place. The project was initially submitted for funding in February 2017 as part of the European Structural and Investment Funds (ESIF) programme and funding was formally approved by the Ministry of Housing, Communities and Local Government (MHCLG) on 14th September 2018 for £3.283m. Additional funding was approved by the Leicester and Leicestershire Enterprise Partnership (LLEP) on 12th October 2018 for £0.988 million and construction commenced shortly thereafter.

Internal Audit’s stage one (initiation) report concluded that the project was being well managed and made just three low priority recommendations for improvement, two of which remained outstanding at the time of reporting. Despite a challenging timetable, construction was on track and within budget at the time of audit; practical completion and initial handover was expected on 6th September 2019. Procurement of a lettings agent and managing agent have been delayed but appointments have now been made. Project governance arrangements remain largely unchanged since the initial audit, although departure of the Council’s Project Support Officer in December 2018 has meant that project documentation has not been kept up-to-date and project meetings have been less frequent. Moreover, the Council’s Project Manager has recently left the Council and there have been a number of other staffing changes on the project team. Urgent action is now required to appoint a new Project Manager, review project resources and ensure all project documentation is brought up-to-date. In the meantime, there is an increased risk that the project could go off-course if key roles are not filled and critical project documents such as highlight reports, project plans and risk registers are not regularly reviewed and updated.

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

Assurance Opinion		
Control environment	Good	
Compliance	Satisfactory	
Organisational impact	Minor	

In order to further improve the controls and compliance, eight 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	0	Not started	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	2.3	Fieldwork in progress	Q2		
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	Not started	Q4		
Agency staff – IR35 compliance	To provide assurance over the Council's consistent compliance with IR35 legislation in relation to agency staff.	8	12.1	Completed	Q1	Controls: Good Compliance: Satisfactory Impact: Minor	See para 2.6 above.

Assignment	Assurance sought	Budget days	Actual days	Status	Planned start	Assurance rating	Comments
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.	10	1.5	On hold	Q1		Audit on hold pending completion of options appraisal expected November 2019.
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	9.5	Draft report issued	Q2		
Safeguarding	To provide assurance that the Council is fulfilling its responsibilities in safeguarding the most vulnerable members of the community.	10	8.8	Completed	Q1	Controls: Substantial Compliance: Substantial Impact: Minor	See para 2.6 above
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		
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	0.1	Planning	Q3		

<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>
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	1.1	Planning	Q1-Q4		
Grow on space – embedded assurance review	To provide assurance over the management of this project, including risk management, governance and procurement/contract management.	15	8.4	Delivery stage report completed	Q1-Q4	Controls: Good Compliance: Satisfactory Impact: Minor	See para 2.6 above
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	0	Planning	Q3		
Other support							
Contingency - to provide assurances over new projects / initiatives, to be allocated during the year.		12	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	7.2				
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	9				
TOTAL		235	62	26%			

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	1	1	0	0
Communication during Assignments	2	0	0	0
Quality of Reporting	1	1	0	0
Quality of Recommendations	1	1	0	0
Total	5	3	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	2	67%	4	67%	3	27%	9	45%
Actions due within last 3 months, but <u>not implemented</u>	-	-	-	-	1	9%	1	5%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	1	33%	2	33%	7	64%	10	50%
Totals	3	100%	6	100%	11	100%	20	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.