



**Internal Audit Update
March 2021
HARBOROUGH DISTRICT COUNCIL**

Date: 21st July 2021

Introduction

- 1.1 The internal audit service for Harborough District Council has been commissioned to provide 235 audit days to deliver the 2020/21 Annual Audit Plan and undertake other work commissioned by the Council.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Audit and Standards 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 2020/21

Internal Audit has been set the objective of delivering at least 90% of the Internal Audit plans for 2020/21 to draft report stage by the end of March 2022.

At the date of writing, one report has been drafted and fieldwork is underway on a number of further assignments.

An amendment to the audit plan is recommended in order to strengthen the Council's counter fraud controls, using some Internal Audit resource. It is recommended that:

- The audits of Temporary Accommodation and IT Governance be reduced by five days each;
- The ten days then be allocated to supporting the Council's work on the National Fraud Initiative. This is an exercise run by the Cabinet Office which provides data matching across the public sector and wider partners, to highlight potential indicators of fraud against the Council. The resource will be applied to reviewing and investigating data matches and confirming any evidence of fraud or error; and also supporting with the upload of data for the next national exercise. This work would be delivered by a counter fraud officer who has experience in leading such work.

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, one questionnaire has been returned and the results are shown in table 2.

2.4 **Productivity**

As at the latest possible date for reporting purposes, current members of the audit team have been delivering 92% productivity against the target of 90%.

2.5 **Outstanding audit recommendations**

Since 1st April 2021, seven actions arising from Internal Audit reports have been implemented.

At the date of reporting, there are eight 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 Audit and Standards Committee when finalised.

No audit reports from the 2021/22 audit plan have been finalised as at the time of reporting.

Table 1 - Progress against 2021/22 internal audit plan

<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>
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	-	In progress	As required		
Risk management	To provide assurance over the Council's risk management framework and effective embedding of risk management across the organisation. Last audit in 2017 – usually cover three yearly.	8	7	Draft report	Q1		
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	-	Not started	Q4		
Asset management	To provide assurance over the safe and effective management of the Council's property assets and to confirm that controls are being effectively exercised in relation to leased properties (including Grow On Space).	15	-	Not started	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.	9	-	Not started	Q3		

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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	-		Q3		
Payroll system (consultancy)	To provide consultancy support on the implementation of the new payroll system.	5	0.5	In progress	Q1		
The People: A healthy, inclusive and engaged community.							
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	0.5	In progress	Q1-Q4		
Temporary accommodation	To provide assurance that the Council's placing of individuals in temporary accommodation is in line with national requirements and local policy and that recoverable monies are secured.	12	-	Not started	Q2		
The Place: An enterprising, vibrant place.							
Planning fee income	To provide assurance over the recovery of monies due in relation to planning fees – including charging for all chargeable services, benchmarking to other authorities and informed projections in budget monitoring.	12	4	Fieldwork underway	Q2		
Community grants	To provide assurance over the grant application and approval process, including counter fraud controls.	12	11	Draft report issued	Q1		

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Growth projections	To provide assurance over the Council's effective use of data relating to growth in the district and its application in effective financial modelling such as business rates projections.	10	-	Not started	Q3		
Your Council: innovative, proactive and efficient.							
Transformation programme (consultancy)	To provide consultancy support during the transformation of services and processes – to ensure key controls are considered in service redesign.	12	0.5	As required	As required		
Covid 19 recovery	To provide assurance over actions the Council is taking to move to business as usual and the project management supporting this, including review of the Council's response. To review changes in working practices/procedures and whether changes in key controls pose any additional risks to the organisation.	15	-	Not started	Q2		
IT governance	IT is central to, and essential for, the business of the Council. It is, therefore, important that a suitable and robust IT strategy, a system of IT governance and all necessary IT policies are in place to support this.	10	-	Not started	Q3		
Other support							
Client management and support - support and reporting to Audit and Standards 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.		35	8				

<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	4				
TOTAL		235	36	15%			

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	0	1	1	0
Communication during Assignments	0	1	1	0
Quality of Reporting	0	2	0	0
Quality of Recommendations	1	1	0	0
Total	1	5	2	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	-	1	20%	6	60%	7	47%
Actions due within last 3 months, but <u>not implemented</u>	0	-	1	20%	2	20%	3	20%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	0	-	3	60%	2	20%	5	33%
Totals	0	-	5	100%	10	100%	15	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 Audit and Standards 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 Audit and Standards 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.