

Appendix A



**Internal Audit Update
March 2023
Harborough District Council**

Introduction

- 1.1 The North Northamptonshire Council Internal Audit service has been commissioned to provide 235 audit days to deliver the 2022/23 Annual Audit Plan for Harborough District Council - and undertake other work commissioned by the Council, as required.
- 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 2022/23

Internal Audit has been set the objective of delivering at least 90% of the Internal Audit plans for 2022/23 to draft report stage by the end of March 2023. Management have requested that one of the audit assignments be delayed until March/April 2023 but all other assignments are on track for delivery in March. All outcomes will be reported to the Audit & Standards Committee in the Annual Internal Audit Report for 2022/23.

At the date of writing, a further four assignments from the plan have been finalised and fieldwork is complete on a further audit.

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 have been returned - 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 95% productivity against the target of 90%.

2.5 Outstanding audit recommendations

Since the last committee meeting, 10 agreed management actions have been closed. At the date of reporting, there are 14 agreed management actions that are due but yet to be confirmed as implemented. Of these, none are of a 'high priority' and two are of a 'medium priority'.

An analysis of the implementation of actions is provided in **Table 3**. Full details of all overdue medium priority recommendations are provided in **Appendix B**.

2.6 Summary of audit findings

IT Asset management

An accurate and complete ICT Asset Register/log should support the ICT team in exercising effective control over hardware and software owned by the Council. This should include complete, accurate and updated records of ICT equipment and software applications.

The objective of the audit was to provide assurance that controls are in place to ensure ICT hardware and software processes and procedures are consistently implemented and accurate records/register are maintained to ensure the accuracy and value for money.

New software was adopted in September 2022 for compiling and maintaining the Council's ICT Hardware Asset Register. Processes for recording and tracking hardware assets appear robust, with work still in progress to register all assets on to the register as accurately as possible.

Physical verification testing performed by Internal Audit, on a sample basis, confirmed that controls and records of new starters, leavers and internal movers affecting the ICT Hardware Asset Register were comprehensive and accurate. There is scope for procedure notes and a checklist to be developed to document and support the starters and leavers ICT procedures.

Based on discussion with officers and review of the relevant documentation, the Council's ICT Security Policy was approved by the Executive in August 2014. Therefore, a review and update of this documentation is required and is scheduled to take place by April 2023.

It was established that the ICT team have procedures in place for the safe installation of software. However, arrangements for the recording and effective ongoing maintenance of software assets in use on ICT devices across the Council requires development. This work has commenced as part of the ICT Transformation Programme. Services manage and maintain service specific software with minimal input by the Council's ICT department. The production of a software register is recommended as means of strengthening controls in this area going forward with both ICT officers and specific services inputting into this register.

Based on the audit findings, 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 ●

Leisure Project – Embedded Assurance Stage 2 Review – Delivery stage

The initial aim of the project was to have suitable leisure facilities and services in place at the expiry of the previous leisure trust contract in March 2019. However, following a failed procurement exercise in 2018 for the preferred option of a Design Build Operate and Maintain (DBOM) contract, the project was placed on hold due to concerns over affordability. Attempts to negotiate an extension of the trust management contract with Serco in 2018, as an interim measure, failed to reach agreement but a new three-year service only contract was subsequently procured and awarded to Sport and Leisure Management (SLM) commencing April 2019. The project then remained on hold whilst the Council reconsidered its options and was further delayed as a result of the Covid-19 pandemic. In September 2021, Cabinet agreed to proceed with the option of redevelopment and refurbishment of the existing sites at an estimated net capital cost of £9.75 million. In October 2021, Cabinet agreed an extension to the existing SLM contract for a further two years to 31st March 2024 to secure the continued provision of leisure services in the interim.

Review of the initiation stage of the project was reported in June 2022 and concluded that appropriate project management arrangements had been established - with ten recommendations for improvement. This review provides assurance that effective project management arrangements remain in place. Since the last review, staff changes at the Council have resulted in changes to key project roles, including the Project Sponsor and Project Manager. This has inevitably resulted in some disruption to the project as the new post holders necessarily take time to fully understand the project. Most of the stage one recommendations exceeded their implementation date and four are yet to be fully implemented. Whilst the project remains on-track overall, there has been some slippage in project milestones (partly due to factors outside of the Council's control) and further work is required to ensure there is a clearly allocated project budget and associated budget management and reporting arrangements going forward.

Based on the audit findings, 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	●

Strategic partnering and shared services




Partnership working is referred to in a number of areas in the Council's corporate plan, including activities related to community safety, health and wellbeing, energy efficiency and economic development. Effective governance arrangements therefore underpin a number of the Council's corporate objectives as well as ensuring accountability and value for money for local taxpayers. The last audit of partnership working was undertaken in 2014 and resulted in a substantial assurance opinion. This year's audit

seeks to provide assurance that appropriate controls remain in place for the effective governance of partnerships. The audit has focused on major service delivery partnerships using the revenues and benefits and parking enforcement partnerships as examples to test the Council's arrangements.

Based on the audit findings, a partnership policy is in place which establishes the basic governance principles to be adopted by the Council. However, the policy has not been updated since 2015 and could be improved by providing a better definition of partnership types and establishing clear criteria and processes for entering into and governing new partnerships. Officers are currently considering options for the future strategic management of the Council, including potential joint working, and should take the opportunity to develop a new partnership framework once the proposals have been agreed. Due to recent staffing changes, there is also a need to ensure that corporate responsibility and accountability for partnerships is clearly allocated going forward.

Existing partnerships and shared services are recorded in a formal partnership register which is reviewed and updated on an annual basis. The content of the register could be modified to provide additional information and to act as a management tool to ensure appropriate governance controls are maintained and that partnership agreements are reviewed and updated in a timely manner. The revenues and benefits partnership agreement expired in 2021 and the parking agreements are in need of review. Nevertheless, sound governance arrangements remain in place for these partnerships together with effective processes for risk management and performance reporting. These arrangements could be strengthened through the preparation of an annual partnership performance report for Members. In addition, further work is required to ensure that appropriate business continuity plans are in place for partnerships delivering critical services and that Information Sharing Agreements (ISAs) are put in place where necessary. All service delivery partnerships should be subject to periodic value for money reviews to ensure they continue to meet the Council's objectives and remain the optimal delivery vehicle.

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

Assurance Opinion	
Control environment	Satisfactory 
Compliance	Satisfactory 
Organisational impact	Minor 

Agile working

Agile working is a way of working in which an organisation empowers its people to work where, when and how they choose. It uses communications and information technology to enable people to work in ways, which best suit their needs without the traditional limitations of where and when tasks must be performed. The Council formally adopted an Agile Working Policy in August 2021 and this review considered lessons learnt from the agile working trial and sought assurance over

the arrangements in place for supporting staff in line with recommended practice, to support productivity and staff wellbeing.

Overall, the Council's agile working framework is well designed and outlined in a clear and comprehensive Agile Working Policy, that has been suitably communicated to staff and Members. There are mechanisms in place to manage employee and team performances and to maintain good communication with staff through weekly emails and all staff briefings. Testing indicated that line managers have adapted procedures to ensure good engagement with their teams through regular team meetings and 1-2-1s, either virtually or face to face.

Suitable arrangements are in place to protect the health and safety of both office and home workers through Display Screen Equipment (DSE) assessments, updated risk assessments and nominated fire marshalls and first aiders to ensure adequate cover when working in the office.

Employees have access to ongoing support and resources to support their physical and mental well-being, through a dedicated mental and physical wellbeing information page on the intranet, online training materials and access to an employee assistance programme.

All employees have been required to have an IT health check to ensure they have the appropriate equipment to work agilely. At the time of reporting, 87% of staff had had this check and steps are being taken to ensure this is completed by all employees. The roll out of the Microsoft Teams transformation project, to migrate all service areas over to Teams, started in October 2022 and remains ongoing.

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

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

Table 1 - Progress against 2022/23 internal audit plan

Assignment	Assurance sought	Budget days	Planned start	Planned reporting	Status	Assurance rating	Comments
Corporate governance and counter fraud							
National Fraud Initiative (NFI) support	To provide support in the oversight of data uploads and investigation of data matches.	15	As required	As required	Ongoing	Consultancy work	Data uploaded in October 2022
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 provide s151 assurances.	30	January 2023	March 2023	Fieldwork underway		
Performance management	To provide assurance over the Council's new performance management framework – including the focus of performance indicators, completeness and accuracy of data and effective use of the new software.	12	June 2022	July 2022	Final report issued	Control environment: Good Compliance: Good Organisational risk: Minor	Reported at November 2022 committee meeting
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	February 2023	March 2023	Fieldwork underway		
IT asset management	To provide assurance over the management and control of the Council's hardware and software assets – including security of devices and software licensing.	12	August 2022	September 2022	Final report issued	Control environment: Satisfactory Compliance: Satisfactory Organisational risk: Moderate	See section 2.6

Assignment	Assurance sought	Budget days	Planned start	Planned reporting	Status	Assurance rating	Comments
Information governance	To provide assurance over the Council's management of risks associated with data security and compliance with regulatory requirements.	15	April 2022	May 2022	Final report issued	Control environment: Satisfactory Compliance: Good Organisational risk: Minor	Reported at June 2022 committee meeting
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	Ongoing throughout year	Aligned with project	Final report issued	Control environment: Good Compliance: Good Organisational risk: Minor	See section 2.6
The Place: An enterprising, vibrant place.							
Environmental services contract management	To provide assurance over the management of this key contract and confirm the mechanisms in place to ensure services are delivered to the required standard and in line with contractual agreements.	18	November 2022	January 2023	Fieldwork underway		Postponed to March 2023 at management request
Managing major projects	To review the Council's procedures for managing major projects and assess compliance with key controls in ensuring projects are delivered on time, within budget and in accordance with Council policies, procedures and delegated decision making powers.	18	October 2022	November 2022	Fieldwork complete		
Your Council: innovative, proactive and efficient.							
Strategic partnering and shared services	To review the Council's strategic approach to engagement in partnerships and shared services and seek assurance over the consistent application of expected controls and governance in establishing such arrangements.	15	June 2022	August 2022	Final report issued	Control environment: Satisfactory Compliance: Satisfactory Organisational risk: Minor	See section 2.6

Assignment	Assurance sought	Budget days	Planned start	Planned reporting	Status	Assurance rating	Comments
Agile working	To assess lessons learnt from the agile working trial and assess arrangements in place for supporting staff against recommended practice, to support productivity and staff wellbeing.	12	October 2022	November 2022	Final report issued	Control environment: Substantial Compliance: Good Organisational risk: Minor	See section 2.6
Online payments	To provide light touch review/real time audit support on the roll out of new online payment portal and compliance with Payment Card Industry Data Security Standards.	7	To be confirmed	To be confirmed	Engagement concluded	Advisory work, as required	
Other support							
Contingency (note – used for grant claim verification work)		3					
Client management and support - support and reporting to 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.		35					
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					
TOTAL		235					

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	Not applicable	Outstanding	Good	Satisfactory	Poor
Design of Assignment	-	1	1	-	-
Communication during Assignments	-	1	1	-	-
Quality of Reporting	-	1	1	-	-
Quality of Recommendations	1	-	1	-	-
Total	1	3	4	-	-

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	-	6	75%	4	25%	10	42%
Actions due within last 3 months, but not implemented	0	-	-	-	4	25%	4	16%
Actions due <u>over 3 months</u> ago, but not implemented	0	-	2	25%	8	50%	10	42%
Totals	0	-	8	100%	16	100%	24	100%

Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Audit & 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 & 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.