



HARBOROUGH DISTRICT COUNCIL

INTERNAL AUDIT UPDATE

JULY 2016

Date: 27th July 2016

Introduction

- 1.1 The Welland Internal Audit Consortium provides the internal audit service for Harborough District Council and has been commissioned to provide 235 audit days to deliver the 2016/17 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 2016/17

The Welland Internal Audit Consortium is currently under the management of LGSS (Local Government Shared Services). The Welland Board has set LGSS the objective of delivering at least 90% of the Internal Audit plans for 2016/17 to draft report stage by the end of March 2017.

At the date of writing one assignment has been finalised, one is at draft report stage and work is underway on another one. The draft assignment plan has been issued for a further two audits but management have requested the postponing of these reviews in the absence of the Financial Services Manager. The team has, therefore, delivered approximately 17% of the current year audit plan to at least draft report stage at the time of reporting. 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

So far this year, customer satisfaction questionnaires have been returned for three assignments and all aspects of the audits were rated 'satisfactory' or better. 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 91% productivity against the target of 90%.

2.5 **Outstanding audit recommendations**

Since the last Governance and Audit Committee meeting, 16 actions arising from Internal Audit reports have been implemented.

At the date of reporting, there are 22 agreed management actions which are due but yet to be confirmed as implemented, this is a reduction of 31% since the last meeting. A number of revised dates have been agreed for overdue actions and a concerted effort is being made to ensure these are completed and updated as soon as possible.

Since the last Committee meeting, senior management have highlighted the implementation of audit recommendations as a priority for officers and have monitored the responses provided to Internal Audit. The Head of Internal Audit and the Head of Finance and Corporate Services have reviewed all overdue actions and revised these as required to ensure all remain valid, value adding and appropriate.

An analysis of the implementation of actions is provided in **Table 3**. Full details of all high and medium priority recommendations overdue for more than three months is provided in **Appendix B**.

2.6 **Emerging issues**

Copies of all Internal Audit reports are provided to the Chairman of the Governance and Audit Committee when finalised and presented to the next available committee meeting.

Since the last Governance and Audit Committee meeting, four 2015/16 and one 2016/17 Internal Audit reports have been finalised. In addition, the Internal Auditors for Hinckley and Bosworth Borough Council, PwC, have published their 2015/16 report in respect of the Leicestershire Revenues and Benefits Partnership. A full copy of these reports is provided in **Appendix C**. A sufficient assurance opinion was given for all three internal audit reports, the basis of which is detailed within the reports along with action plans agreed with management to strengthen existing arrangements. PwC issued a medium risk rating in respect of Council Tax and a low risk rating for NNDR. No risk rating was provided for housing benefits as their work was confined to a non-assurance review.

Table 1 - Progress against 2015/16 Internal Audit Plan

| Assignment | Assurance sought | Budget days | Actual days | Status | Planned start | Assurance Rating | Comments |
|---|---|--------------------|--------------------|---------------------|----------------------|-------------------------|-------------------|
| Fundamental Financial Systems | | | | | | | |
| Financial Systems Key Controls | To provide assurance that controls are in place to mitigate the key risks to the Council in respect of its financial systems. | 30 | 0 | Not started | Q4 | | |
| Financial Management | To provide assurance over the Council's financial management arrangements to secure value for money and ensure all staff with financial roles are aware of their responsibilities and have appropriate training and support. | 15 | 0 | Not started | Q2 | | |
| Treasury Management | To provide assurance that controls to mitigate the key risks to the Council in effective Treasury Management are in place, fit for purpose and operating in practice to ensure the security of Council monies and compliance with good practice and relevant legislation. | 10 | 0 | Not started | Q3 | | |
| Assurances from Partners on Financial Risks | To review assurances provided for shared/delegated services such as risks associated with benefits and local taxation which are subject to review by Hinckley and Bosworth's Internal Auditors. To identify any gaps in assurance where further work is required. | 5 | 0 | Not started | Q4 | | |
| Governance | | | | | | | |
| Risk Management | Assurance that there is an appropriate system of risk management in place, including alignment of the Council's strategic risks with the Council Plan. | 10 | 9.4 | Final report issued | N/A | Sufficient Assurance | See appendix C(v) |

| Assignment | Assurance sought | Budget days | Actual days | Status | Planned start | Assurance Rating | Comments |
|--|---|--------------------|--------------------|------------------------------|----------------------|-------------------------|--|
| Insurance Coverage | High level review to provide assurance that controls are in place to ensure that the Council's insurance cover is set on time, at an appropriate level and is amended in reaction to any significant changes to activities. | 5 | 0.4 | Draft Assignment Plan issued | Q1 | | Audit delayed due to absence of Financial Services Manager. To be re-scheduled for Q2. |
| Procurement | Testing of a small sample of procurements across the Council during the financial year to confirm compliance with Council regulations. To provide assurance over controls to ensure value for money and prevention of fraud and corruption. | 5 | 0 | Not started | Q3 | | |
| IT | | | | | | | |
| Business Continuity and IT Disaster Recovery | To review the Council's business continuity arrangements and plans in place for in house IT Disaster Recovery. To provide assurance that in the event of an unplanned incident, the Council could maintain an appropriate level of continuous service delivery and plans would be accessible and fit for purpose to re-establish normal service levels. | 15 | 0 | Not started | Q3 | | |
| Service delivery | | | | | | | |
| Fees and Charges | To provide assurance that statutory fees and charges are being set at the correct level and that fees and charges set on a discretionary basis are being set in accordance with any guidance, are set on a cost recovery basis and volume of service demand is being considered in budget calculations. | 15 | 1 | Draft Assignment Plan issued | Q1 | | Audit delayed due to absence of Financial Services Manager. To be re-scheduled for Q2. |

| <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> |
|-----------------------|---|--------------------|--------------------|---------------------|----------------------|-------------------------|---|
| Absence Management | To provide assurance over the accuracy and completeness of absence management records for Council employees and to review whether absence management procedures are in place, complied with and effective in minimising loss of resources and evidencing compliance with good practice. | 10 | 10 | Draft report issued | N/A | | Draft report issued 1st July 2016 – awaiting officers’ response. |
| S106 Follow Up Review | To provide assurance that the Council has implemented the agreed actions arising from the 2015/16 Internal Audit review of S106 arrangements and to confirm whether these actions are effectively addressing the identified risks. | 10 | 0.1 | Not started | Q2 | | |
| Major projects | <p>To provide assurance over the effective management of a number of major projects across the Council during the year. To review governance and project management arrangements in place to ensure value for money is achieved and the project realises its intended benefits. This will build upon some embedded assurance work delivered by Internal Audit in 2015/16. To include reviews of:</p> <ul style="list-style-type: none"> • Environmental Services Contract Q1 • Leisure Facilities Options Q3 • Housing Service Review (TBA) • Local Plan Q2/3 • Business Move On Space (TBA) <p>Allocation of days between these projects will be agreed with senior management during the year under a risk based approach.</p> | 41 | 0.1 | Fieldwork started | Various | | Fieldwork underway in respect of the Local Plan project and support maintained during the closure of the Environmental Services Contract Project. |

| <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> |
|------------------------------------|-------------------------|--------------------|--------------------|---------------|----------------------|-------------------------|---|
| Other support | | | | | | | |
| Continuing support to s106 Project | | - | 0.7 | | | | |
| Contingency | | 10 | 0 | | | | |
| Client Management and Support | | 33 | 9.7 | | | | |
| Consortium Management | | 21 | 2.6 | | | | |
| TOTAL | | 235 | 34 | | | | 14.5% (excludes 2.6 days for completion of 15/16 audits) |

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.

| | |
|--------------------|--|
| Substantial | There is a sound control framework designed to manage or mitigate risks to the achievement of defined objectives. Testing confirms that the controls are being applied consistently. |
| Sufficient | The control framework is basically sound but either <ul style="list-style-type: none">• there are minor gaps or weaknesses which mean that some risks are not fully managed or mitigated; or• testing provides evidence of non-compliance sufficient to weaken the effect of some controls. |
| Limited | There are significant weaknesses in key elements of the control framework which mean that significant risks are not managed or mitigated. Testing demonstrates significant levels of non-compliance with prescribed processes and procedures |
| No | The controls identified are not sufficient to manage/mitigate identified risks to the achievement of defined objectives. Testing demonstrates high levels of non-compliance with prescribed processes and procedures. |

Table 2: Customer Satisfaction

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire 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 | N/A | Outstanding | Good | Satisfactory | Poor |
|-------------------------------------|------------|--------------------|-------------|---------------------|-------------|
| Design of Assignment | 0 | 1 | 2 | 0 | 0 |
| Communication during Assignments | 0 | 1 | 2 | 0 | 0 |
| Quality of Reporting | 0 | 1 | 1 | 1 | 0 |
| Quality of Recommendations | 0 | 0 | 2 | 1 | 0 |
| Total | 0 | 3 | 7 | 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 | 3 | 38% | 8 | 40% | 5 | 50% | 16 | 42% |
| Actions due within last 3 months, but <u>not implemented</u> | - | - | - | - | - | - | - | - |
| Actions due <u>over 3 months</u> ago, but <u>not implemented</u> | 5 | 62% | 12 | 60% | 5 | 50% | 22 | 58% |
| Totals | 8 | 100% | 20 | 100% | 10 | 100% | 38 | 100% |

Limitations and Responsibilities

Limitations inherent to the internal auditor's work

The consortium is undertaking a programme of work agreed by the council's senior managers and approved by the Audit & Governance 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 the consortium'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 the consortium'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.

The consortium 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.