



**HARBOROUGH DISTRICT COUNCIL
INTERNAL AUDIT ANNUAL REPORT
2015/16**



Head of Internal Audit: Rachel Ashley-Caunt

1. Background

1.1 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide an annual Internal Audit opinion and report that can be used by the organisation to inform its governance statement. The Standards specify that the report must contain:

- an Internal Audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
- a summary of the audit work from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
- a statement on the extent of conformance with the Standards including progress against the improvement plan resulting from any external assessments.

2. Head of Internal Audit Opinion 2015/16

2.1 This report provides a summary of the work carried out by the Internal Audit service during 2015/16 and the results of these assignments. Based upon the work undertaken by Internal Audit during the year, the Head of Internal Audit's overall opinion on the Council's system of internal control is that:

Sufficient Assurance can be given that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally operating effectively in practice. The level of assurance, therefore, remains at a consistent level from 2014/15.

Controls relating to those key financial systems which were reviewed during the year were concluded to be generally at a level of Sufficient Assurance.

During 2015/16, the Council received one Internal Audit report with a Limited Assurance opinion.

During 2015/16, Internal Audit has made 57 recommendations within the reports issued to address any areas of weakness highlighted by the reviews. Of those actions which were due for implementation, 67% have been completed during the year. Since the last Governance and Audit Committee meeting, management have taken action to actively monitor implementation of audit recommendations in efforts to increase implementation and enhance the internal control environment.

No system of controls can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

The basis for this opinion is derived from an assessment of the range of individual opinions arising from assignments in the risk-based Internal Audit plan that have been undertaken throughout the year. This assessment has taken account of the relative

materiality of these areas and management’s progress in addressing any control weaknesses. A summary of Audit Opinions is shown in Table 1:

Table 1 – Summary of Audit Opinions 2015/16:

Area	Substantial	Sufficient	Limited	No
Financial Systems	-	3	-	-
Governance	-	1	-	-
IT	-	1	-	-
Service Delivery	2	2	1	-
Total	2	7	1	0
Summary	20%	70%	10%	0%
with 2014/15 Comparison	(29%)	(71%)	(0%)	(0%)

3. Review of Audit Coverage

3.1 Audit Opinion on Individual Audits

The Committee is reminded that the following assurance opinions can be assigned:

Table 2 – Assurance Categories:

Level of Assurance	Definition
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 resulting in inability to deliver service objectives. The fundamental controls are not being operated or complied with.

Audit reports issued in 2015/16, other than those relating to consultancy support, resulted in the provision of one of the above audit opinions. All individual reports represented in this Annual Report are final reports and, as such, the findings have been agreed with management, together with the accompanying action plans.

3.2 Summary of Audit Work

3.2.1 Table 3 details the assurance levels resulting from all audits undertaken in 2015/16 and the date of the Committee meeting at which a summary of the report was presented.

Table 3 – Summary of Audit Opinions 2015/16:

Audit Area	Audit Opinion	Committee Date
Financial		
Key Financial System Controls	Sufficient	July 2016
Financial Resilience	Sufficient	July 2016
Capital Programme	Sufficient	September 2015
Governance		
Assurance Framework	Sufficient	July 2016
IT		
Business Continuity and Third Party Arrangements	Sufficient	September 2015
Service Delivery		
s.106 Agreements	Limited	March 2016
Customer Services Data	Sufficient	September 2015
Licensing	Substantial	November 2015
Planning Service Review	Sufficient	July 2016
Environmental Services Contract - Embedded Assurance (Initiation stage)	Substantial	November 2015

3.2.2 Outlined in Appendix 1 is a summary of each audit that has been finalised during the year. The Committee should note that the majority of these findings have previously been reported as part of the defined cycle of update reports provided to the Governance and Audit Committee.

3.2.3 An update on progress made in any areas where Limited Assurance was given, as at April 2016, is provided in Appendix 1.

3.3 Implementation of Internal Audit Recommendations

3.3.1 Internal Audit follow up on progress made against all recommendations arising from completed assignments to ensure that they have been fully and promptly implemented. The Head of Internal Audit provides a summary at each Governance and Audit Committee on the progress made and actions outstanding. Details of the implementation rate for audit recommendations during 2015/16 are provided in Table 4. These figures are based on implementation as at 31st March 2016.

Table 4 - Implementation of Audit Recommendations 2015/16:

	Category 'High' recommendations	Category 'Medium' recommendations	Category 'Low' recommendations	Total
Agreed and Implemented	-	8	8	16 (28%)
Agreed and not yet due for implementation	4	13	16	33 (58%)
Agreed and due within last 3 months, but not implemented	2	2	-	4 (7%)
Agreed and due over 3 months ago, but not implemented	1	-	2	3 (5%)
Risk accepted by management and action closed	-	1	-	1 (2%)
TOTAL	7	24	26	57 (100%)

3.3.2 In addition to those actions outstanding from 2015/16 audit reports, a further 19 actions remained overdue in relation to audit reports issued in 2013/14 and 2014/15. A summary of all overdue recommendations is provided in Table 5:

Table 5 - Summary of Overdue Recommendations as at 31st March 2016

Audit Title	Year reported	High		Medium		Low	
		Over 3 months	Under 3 months	Over 3 months	Under 3 months	Over 3 months	Under 3 months
Financial Management	2012/13			1			
Business Continuity	2012/13	1					
Contract Management	2013/14	1		4			
Information Management	2013/14			3			
Counter Fraud General Arrangements	2013/14			1			
Financial System Key Controls	2014/15			2		1	
Local Taxes	2014/15			1			
Private Sector Housing Objectives	2014/15					1	
Counter Fraud General Arrangements	2014/15			1		2	
Licensing	2015/16					1	
Business Continuity & Third Party Arrangements	2015/16					1	
S106 Agreements	2015/16	1	2		2		
Totals		3	2	13	2	6	0

3.3.3 The level of implementation is reported to the Governance and Audit Committee throughout the year.

3.4 Other sources of assurance

3.4.1 In addition to the audit work provided by the Internal Audit team, assurance is also sought in relation to the Leicestershire Revenues and Benefits Partnership which manages the collection of the Council's Council Tax and National Non-Domestic Rates (NNDR). The Partnership's appointed auditors are PWC who performed an annual internal audit of these systems in 2015/16.

3.4.2 Based upon their audit testing, the Partnership's auditors provided an opinion of Medium Risk in relation to Council Tax and Low Risk in relation to NNDR. Seven recommendations have been made and agreed with management in relation to the findings identified. Assurance will be sought by the Internal Audit team on progress made by the Partnership in implementing these actions.

3.4.3 The Internal Audit plan for 2016/17 includes a review of assurances provided by third parties in relation to these financial systems and this will review whether assurances provided are sufficient or whether further work by the Internal Audit team would be of value.

3.5 Internal Audit Contribution

3.5.1 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to management and members via its programme of work and also offers support and advice to assist the Council in new areas of work.

3.5.2 Delivery of 2015/16 Audit Plan

The Council commissioned 235 days from the Internal Audit Consortium to deliver the 2015/16 Audit Plan.

The team delivered a total of **218** days to Harborough District Council in completing the 2015/16 Audit Plan. This involved delivery of the planned audit assignments, client liaison, support, management, reporting and training for the Governance and Audit Committee and provision of ad hoc advice and support.

3.5.3 Internal Audit Contribution in Wider Areas

Key additional areas of Internal Audit contribution to the Council in 2015/16 are set out in Table 6:

Table 6 – Internal Audit Contribution

Area of Activity	Benefit to the Council
Delivering mandatory training to staff on Fraud Awareness.	To communicate the Council's zero tolerance towards fraud and corruption and make staff alert to the risks and understand the controls they should be exercising to prevent, detect and report fraud.
Delivering testing on key controls as requested by External Audit to assist them in forming their opinion on the Annual Accounts and maintaining good working relationships with the external auditors.	Reduce audit burden, saving costs.
Provision of training to members of the Governance and Audit Committee.	The Governance and Audit Committee is more effective in its role as an assurance provider.
Presence at Harborough District Council offices.	Raising profile of Internal Audit and availability to support ad-hoc queries and provide advice.
Independent support to the s106 project.	Independent challenge and support on the delivery of the project to address the weaknesses identified by the Limited Assurance audit report issued in 2015/16.
Ad hoc advice on financial system controls.	To assist in identifying and highlighting potential risks and control weaknesses and strengthen internal controls.
Assessment against the CIPFA Code of Practice for Counter Fraud arrangements.	To highlight any areas where fraud controls and governance arrangements could be improved to mitigate the risk of fraud in accordance with best practice.
Sharing of the outcome of a benchmarking review conducted by the Consortium on financial transparency and compliance with the Transparency Code, which included Harborough District Council.	Provided a comparison of the transparency of the Council's budget setting, budget monitoring and financial management arrangements with other authorities and assessed compliance with good practice and legislation.

4. Performance Indicators

- 4.1 Internal Audit maintains several key performance indicators (KPIs) to enable ongoing monitoring by the Welland Internal Audit Board and Committees. Outturns against these indicators in relation to work delivered for Harborough District Council are provided in Table 7:

Table 7 – Internal Audit KPIs 2015/16

Indicator description	Target	Actual
Delivery of the agreed annual Internal Audit Plan – Audit Days	235	218
Delivery of the agreed annual Internal Audit Plan to at least draft report stage by 31 st March 2016	90%	90% (100% by 14 th April –on receipt of outstanding evidence)
Customer Feedback – rating on a scale of 1 to 4 (average) Where: 1 = Poor, 2 = Satisfactory, 3 = Good and 4 = Outstanding	3.6	2.88

- 4.2 The remaining audit days allocated to support the s106 project have been carried forward to the 2016/17 financial year to provide consultancy support as required during the completion and closure of the project.
- 4.3 In April 2016, 100% of draft reports had been issued to management. The issuing of the Planning Service review draft report was delayed until April 2016 whilst awaiting required evidence to complete the review.

5. Professional Standards

- 5.1 The Public Sector Internal Audit Standards (PSIAS) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) from April 2013. The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.
- 5.2 The objectives of the PSIAS are to:
- define the nature of internal auditing within the UK public sector;
 - set basic principles for carrying out internal audit in the UK public sector;

- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

5.3 A detailed self-assessment against the PSIAS has been completed by the Head of Internal Audit, a copy of which is provided in Appendix 2. The outcome of the assessment was that the activities of the Internal Audit service are in general conformance with the Standards.

Appendix 1: Summary of Internal Audit Work Undertaken for 2015/16

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Financial Systems			
Financial System Key Controls	Sufficient	Key financial controls in relation to: <ul style="list-style-type: none"> • User access; • E-procurement system; • Payroll transactions; • Bank reconciliations; • Main accounting system; and • Debt recovery arrangements. 	<p>Based on the audit testing, it was highlighted that key controls in relation to payroll were operating effectively and bank reconciliations were being completed on a monthly basis following a recommendation from the 2014/15 audit report.</p> <p>Overall, the control framework included key controls that promote the delivery of service objectives.</p> <p>There were, however, some inconsistencies, particularly with regards to the audit trails required to provide documentary evidence of key decisions made and the exercising of controls. Two outstanding recommendations from the 2014/15 audit report will continue to be followed up as part of the standard Internal Audit process.</p>
Financial Resilience	Sufficient	To provide assurance over the Council's arrangements for securing financial resilience, including financial planning, financial control and delivery of efficiency improvements.	<p>Based upon the review conducted by Internal Audit, the Council's financial planning arrangements have been assessed as sound. Procedures are in place to ensure that the leadership team has a clear understanding of the financial challenges facing the Council and appropriate arrangements are in place to prepare financial plans that are clear and robust. Financial planning is fully integrated with corporate and business planning processes and the level of balances and reserves is reviewed annually based on risk. Financial planning arrangements could be further strengthened through additional training and review of the format and content of team plans and financial reports.</p> <p>The Council has a good track record of managing its overall spending within budget and has effective arrangements for monitoring and reporting its financial position during the course of the year. The recent introduction of new financial reporting tools meant that the quarter one financial position for</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>2015/16 was not reported, but action has been taken to ensure that future reports are complete and timely.</p> <p>There are robust arrangements in place to identify opportunities for efficiency savings at service level which could be further strengthened through the development of mechanisms to identify cross-cutting savings.</p>
Capital Programme	Sufficient	<p>To provide assurance that the Council has developed appropriate governance and risk management arrangements for major capital projects. These arrangements should be in place to ensure that capital projects are delivered in line with required timescales, within agreed budgets, deliver value for money and support the Council's aims and objectives.</p>	<p>In 2014, the Council developed a new capital programme covering the financial period 2015/16 – 2018/19. The Capital Programme was approved by Full Council in February 2015 and includes 19 projects with a planned total expenditure of £10 million over the three year period. The purpose of the audit was to provide assurance that the Council has developed appropriate governance and risk management arrangements to control its major capital projects. Such arrangements are critical to ensuring that the Council's resources are targeted effectively so that capital projects are delivered within required timescales, within agreed budgets, achieve value for money and support the Council's aims and objectives.</p> <p>The audit found that the Council had established a sound framework of controls designed to mitigate the impact and likelihood of the three key risks identified. A comprehensive project management toolkit is available and easily accessible to all staff. The toolkit provides clear directive guidance to support project managers through the project lifecycle. Although the toolkit was found to be comprehensive, the audit identified potential areas of improvement.</p> <p>In-house training on project management is offered to project managers and is delivered via the senior management and Corporate Management Team meetings. Review of the presentation used for the training confirmed that it contained appropriate detail to support managers in fulfilling their roles and interviews conducted during the audit confirmed a good level of awareness of the training sessions.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>Sufficient governance arrangements had been established for the capital programme, which was subject to formal review and approval by both senior management and Members. It is also intended that CMT and Members would receive full quarterly progress updates. The audit did identify some minor areas of improvement; specifically in terms of raising staff awareness of formally identifying and monitoring risks transferred to external parties from the initial project start-up and in terms of the approval process and progress reporting requirements for individual capital projects.</p>
IT			
<p>Business Continuity and Third Party Arrangements</p>	<p>Sufficient</p>	<p>To provide assurance over the adequacy of controls relating to ICT recovery arrangements in respect of third party arrangements for the Council.</p> <p>The agreements reviewed during the course of the audit were:</p> <ul style="list-style-type: none"> • Revenues & Benefits Services, delivered by Hinckley & Bosworth Borough Council; • Payroll Services, delivered by Leicester City Council; and • The Customer Contact Centre, delivered by Charnwood Borough Council. 	<p>The audit determined that although the Council had standard guidance in place to assist officers in setting up a third party agreement, the guidance did not include the requirement to consider the adequacy of Business Continuity arrangements.</p> <p>Following interviews with a number of key officers in relation to the three partnerships, it was determined that business continuity plans were in place to support continuous delivery of the services. It was highlighted, however, that for two of the three services the Council's lead officer did not have immediate access to documented plans and had not obtained assurance over the review and testing of these plans. In the third case, although a documented plan was available, it did not include the contact details of Harborough District Council. As a result assurance could not be gained that there would be complete clarity on what to do or who to contact, that notifications would be received or timescales of recovery would be known in the event of an incident occurring.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Service Delivery			
s.106 Agreements	Limited	<p>The audit reviewed the design and effectiveness of the policies and procedures in place for negotiation, monitoring, collection and use of s106 contributions.</p>	<p>Policy framework and negotiation processes were found to be adequate. Experienced staff had been involved in policy setting and provision of advice to developers and arrangements were in place to ensure developers were aware of likely s106 requirements at the pre-planning stage. Legal professionals were involved in the development of all new s106 agreements.</p> <p>There was, however, a lack of clarity over monitoring processes and responsibilities and accountability once a new agreement was in place. At the time of the audit, there were a number of records of s106 agreements which were maintained by different officers and the findings of the audit highlighted that these were not being consistently updated in a timely manner or subject to a reconciliation to ensure accuracy and completeness. Sample testing identified an agreement which had not been added to the records, therefore posing a risk of lack of monitoring and officer awareness. During testing, examples were also identified where invoices to developers had not been raised promptly in accordance with key trigger points because they had not been entered onto the monitoring database.</p> <p>A number of inconsistencies were identified between the various records, the s106 obligations and the values invoiced. Details of each discrepancy identified were provided to management for further investigation to confirm whether these represent errors or are due to failure to update database records.</p> <p>Arrangements to minimise the risk of claw-back were generally sound. Financial records provided an audit trail of income and expenditure and were regularly reconciled. The Council works with Parish Councils to support spending which is timely and consistent with conditions. Further work could be undertaken to review historic cases which may be subject to future challenge.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>Update at April 2016: A project was established to address the findings arising from the audit and ensure that robust procedures, record keeping and clear roles and responsibilities are in place for monitoring s106 agreements. Internal Audit has provided consultancy support during this project and a follow up review has been included in the Audit Plan for 2016/17.</p> <p>All actions agreed in the audit report are being addressed as key objectives of the project and a project closure report will be presented to members at the conclusion to explain the actions taken and improvement made.</p>
Customer Services Data	Sufficient	The audit reviewed the adequacy of arrangements to ensure business continuity for customer services and to ensure that customer data received is effectively managed and kept securely.	<p>The audit confirmed that there was an agreement in place to delegate the Contact Centre function to Charnwood Borough Council and that the delivery of the service was subject to regular review. Whilst Business Continuity Plans were described and discussed, documented plans have not been obtained and reviewed for adequacy and robustness. Such plans should be obtained to provide assurance that the delivery of the delegated services could continue at an expected standard and within appropriate timescales in the event of an unplanned incident or business disruption. The Business Continuity Plan for the Customer Services Centre at Harborough District Council was being updated and testing was planned for July 2015, although it should be noted that a 2014 version was in place.</p> <p>The arrangements at both the Contact Centre and Customer Services Centre supported effective data management and security. ICT controls were in place including passwords and limited access levels and controls such as physical locks and secure disposal of documents cover the security of paper items. Whilst sufficient training and induction arrangements were in place at both the Contact Centre and Customer Services Centre, assurance could not be gained that all officers had attended this training.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Licensing	Substantial	To provide assurance that there are appropriate controls in place to effectively mitigate the risks relating to policies and procedures, applications, appeals, fees and their review, income collection and renewals.	<p>Officers were able to demonstrate that well established procedures were in place to enable the licensing function to operate in a timely and efficient way. Appropriate training and guidance was available to those responsible for processing licence applications and renewals, although minor improvements could be made to ensure procedure notes are more robust.</p> <p>Sample testing conducted in order to verify the accuracy and legitimacy of new and renewal licences issued confirmed compliance with prescribed procedures. However, the audit identified opportunities to improve the Uniform licensing system used to maintain master licensing records and administer applications.</p>
Planning Service Review	Sufficient	To provide assurance that the Planning Service Review is delivering the expected benefits and achieving the planned objectives.	<p>The Council initiated a Development Management Improvement Plan in 2014/15. The key objective of the Improvement Plan was to raise the quality of the service. The Improvement Plan included a restructure of the service from May 2015 and the expected service quality improvements included reductions in the time associated with handling appeals and reductions in the time taken to process applications.</p> <p>A SOLACE consultant's report was issued in 2013/14 and formed the basis for a project plan. This included a number of clear recommendations, some of which could be implemented promptly where others required development, consultation and external expertise. It is acknowledged by management that the project did not follow the Council's project management methodology and a post project implementation review had not yet been conducted. However, significant work had been completed and a number of the recommendations have been successfully implemented.</p> <p>On reviewing the current status of all actions within the project plan, Internal Audit confirmed that 70% of the actions arising from the consultant's report had been implemented or closed based on decisions that no further action is</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>justified. Successes to date included a service restructure and effective use of new Technical Administrator posts, improved performance review processes, streamlining of validation processes, provision of an independent planning consultant to lead on appeals where the officer's recommendation has not been followed, development of the pre-application scheme and the commissioning of viability assessments of the Local Plan and significant applications.</p> <p>At the time of audit, work was ongoing in relation to 30% of the actions. It was evident from discussions and evidence provided that management had recently reviewed progress made with the Improvement Plan but there was scope to formalise arrangements to provide assurance that all remaining actions would be fully implemented and progress should be formally reported. It was also noted, that whilst some actions had been progressed, these would be in need of further review and action pending national and local developments and such issues should be logged and formally reviewed.</p> <p>A review of the performance indicators for the service from 2012/13 to 2015/16 highlighted a positive trend in performance in all areas reviewed, particularly processing of 'minor' and 'other planning applications' within 8 weeks.</p>
Environmental Services Contract - Embedded Assurance (Initiation stage)	Sufficient	Embedded assurance involves Internal Audit providing an independent view on project activities and their compliance with the Council's project methodology and best practice; the key difference compared to standard audit assignments is that this assurance is provided throughout the	At this stage in the project lifecycle, based on the evidence provided, it is the Auditor's opinion that Substantial Assurance can be given that the project is being delivered with sufficient consideration of key project management requirements. The Council is making use of specialist, technical skills and expertise to ensure decision making is suitably informed and governance arrangements are in place to demonstrate an appropriate level of scrutiny and review. Both internal and external communications are co-ordinated to ensure effective consultation on the future of this key contract. Risks faced by the

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
		<p>project life-cycle. This was the first embedded assurance report on the Council's Environmental Services Contract review and provided assurance over the project management arrangements in place for the initial stages of the project.</p>	<p>project have been identified and recorded but some audit recommendations have been made to further improve the project's risk and issue management arrangements.</p>