

Hinckley and Bosworth Borough Council

Financial Systems Internal Audit report as at Quarter 4

June 2019

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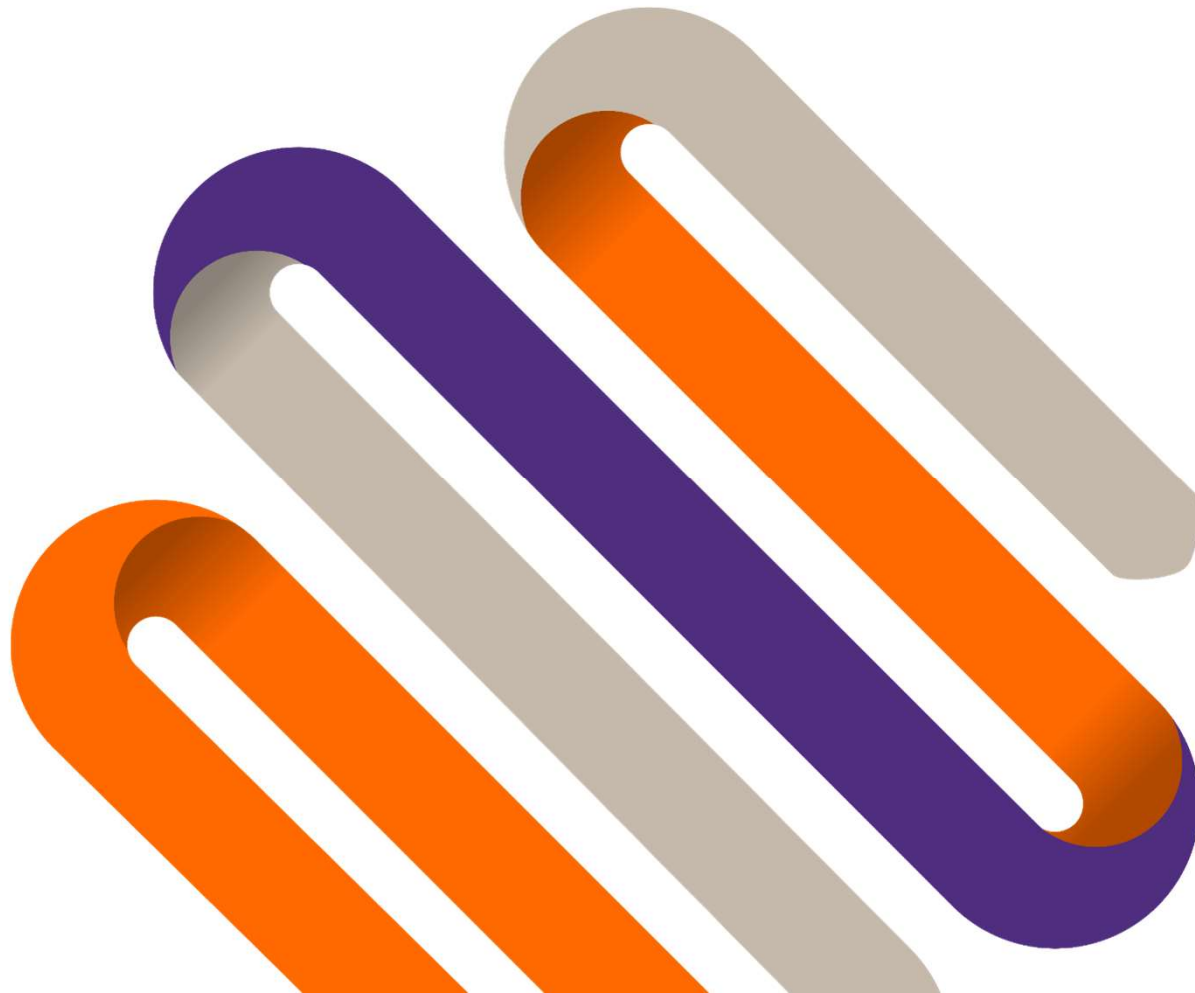
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Report distribution:

For action:

- Section 151 Officer
- Finance Staff

Responsible Executives:

- Director (Corporate Services)

This report is confidential and is intended for use by the management and directors of Hinckley & Bosworth Borough Council. It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third party without our prior written consent. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused.

It is the responsibility solely of the Council's management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.

Executive Summary

Background

An ongoing audit of key financial systems is being undertaken as part of the approved internal audit plan for 2018/19. The purpose of this report is to set out our findings of audit covering the Fourth quarter of the financial year.

Ensuring that appropriate internal financial procedures for the recording and reporting of a complete and accurate set of financial data is fundamental to the effective operation of the Council. Management and the Audit Committee also require assurance that effective financial controls are in place and are operating as expected.

To that end, we have designed and implemented a program of work designed to test performance of financial systems against the key risks identified and outlined within this report. Our approach is designed to test performance of financial systems across the full year. This report will also comment on the direction of travel and any improvements noted since our quarter 3 report. Further details of work performed against the risks identified is set out later in this report.

Objectives

Our work program considers the following key control objectives:

- **Legislation, Policies & Procedures:** staff are compliant with legislative and internal policy requirements. Policies ensure that core finance function is operated in an efficient and effective manner.
- **Financial Transactions & Record Keeping;** financial systems ensure reliability, integrity, confidentiality and security of financial information as follows;
 - **Reconciliations;** key reconciliations are undertaken on a timely and efficient basis, with reconciling items investigated to ensure compliance with internal policies, accounting standards and legislation as required. This ensures the reliability and integrity of financial information.
 - **System Access;** system access is secure, with an adequate procedure in place to ensure that this access is limited to appropriate individuals and regularly reviewed to ensure access is revoked and provided as required;
 - **Management Information:** key financial data is complete, accurate, secure and produced on a timely basis to allow for effective monitoring of the Council's financial position and assist with effective decision making and compliance with legislation and internal policies.

Further details on responsibilities, approach and scope are included the Audit Planning Brief issued in August 2018.

Limitations in scope

Please note that our conclusion is limited by scope. It is limited to the risks outlined above. Other risks exist in this process which our review and therefore our conclusion has not considered. Where sample testing has been undertaken, our findings and conclusions are limited to the items selected for testing. In addition, our assurance on the completeness of the declarations recorded in the register of interest is limited to the findings from our sample testing.

This report does not constitute an assurance engagement as set out under ISAE 3000.

Executive Summary

Conclusion

Significant assurance

We have reviewed the Council's financial systems and controls. The controls tested are set out in our Audit Planning Brief.

We have concluded that the processes provide **SIGNIFICANT ASSURANCE** to the Committee.

Good practice

1. Key reconciliations performed in line with internal deadlines and in a timely fashion, with evidence of management review and sign off.
2. Reconciling items noted in the above are followed up and resolved;
3. Capital monitoring information presented in a clear way to users of the reports (with robust controls over the accuracy of underlying data).

Areas for development

None noted in this report.

Recommendations

We have no recommendations

Acknowledgement

We would like to take this opportunity to thank your staff for their co-operation during this internal audit.

Key Findings & Recommendations

In this section we set out the detailed findings arising from our work. Details of what each of the ratings represents can be found in Appendix 2

Risk Area	Findings and Recommendation	Action Plan
Legislation, Policies & Procedures Staff are compliant with legislative and internal policy requirements. Policies ensure that core finance function is operated in an efficient and effective manner.	Key findings We are satisfied that we have completed sufficient work in quarters 1 – 3 in this area and therefore have no additional findings to report. Recommendations: As above, no additional recommendations have arisen from Q4 work.	N/A

Key Findings & Recommendations

In this section we set out the detailed findings arising from our work. Details of what each of the ratings represents can be found in Appendix 2

Risk Area	Findings and Recommendation	Action Plan
Reconciliations Key reconciliations are undertaken on a timely and efficient basis, with reconciling items investigated to ensure compliance with internal policies, accounting standards and legislation as required. This ensures the reliability and integrity of financial information.	Key findings We have completed our review of key reconciliations for the year. As in prior periods we have reviewed evidence of management review and sign off of reconciliations, evidence of compliance with internal deadlines and performed a qualitative review of underlying documentation relating to the reconciliations themselves, including evidence of follow up of reconciling items. We are satisfied that, in all cases reviewed in Q4, reconciliations were performed and reviewed in line with the internal deadline and we were able to obtain evidence that reconciling items had been followed up and resolved in a timely fashion. Recommendations: No additional recommendations arise from our Q4 work.	N/A

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
System Access System access is secure, with an adequate procedure in place to ensure that this access is limited to appropriate individuals and regularly reviewed to ensure access is revoked and provided as required.	Key findings: Owing to the low level of new access requests observed in previous quarters, our view is that further work in this area at Q4 is not required. Our sample testing of access rights of existing system users raised no concerns this quarter. No matters to report. Recommendations: No additional recommendations arise from our Q4 work.	N/A

Key Findings & Recommendations

Issue	Findings and Recommendation	Action Plan
<p>Management Information</p> <p>Key financial data is complete, accurate, secure and produced on a timely basis to allow for effective monitoring of the Council's financial position and assist with effective decision making and compliance with legislation and internal policies.</p>	<p>Key findings</p> <p>Our quarter 4 testing focussed on the Council's Capital Monitoring report process. The controls around capital monitoring are broadly similar to the controls in revenue budget monitoring which we reviewed earlier in the year. We are satisfied that controls are operating as expected in quarter 4.</p> <p>One key area which differs from the revenue budget monitoring process is around the profiling of capital expenditure. We see in many councils that profiling of capital expenditure is difficult, often due to slippage in schemes but also because capital projects often tend to front or back load expenditure at different times of year. This makes accurate reflecting of expected balances at a point in time challenging. We were satisfied, following testing, that the Council's reporting process adequately reflects the differences in profiling of expenditure in a way that was clear to users of the report.</p> <p>Recommendations</p> <p>No additional recommendations arise from our Q4 work.</p>	<p>N/A</p>

Appendices

Appendix 1 – Staff involved and documents reviewed

Staff involved

- Ashley Wilson – Section 151 officer;
- Ilyas Bham – Deputy Section 151 officer;
- Michelle Lockett – Controls Accountant, Exchequer Team Leader;
- David Wallbanks – Accountant;
- Fiona McArthur – Systems Accountant
- Olga Ismay – Finance Officer

Documents reviewed

- Financial Procedure Rules
- Contract Procedure Rules
- Various reconciliations as required
- Monthly budget monitoring reports
- Civica Systems Access reports

Appendix 2 - Our assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating	Description
Significant assurance	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management.</p> <p>These activities and controls were operating with sufficient effectiveness to provide significant assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by no weaknesses in design or operation of controls and only IMPROVEMENT recommendations.</p>
Significant assurance with some improvement required	<p>Overall, we have concluded that in the areas examined, there are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by minor weaknesses in design or operation of controls and only LOW rated recommendations.</p>
Partial assurance with improvement required	<p>Overall, we have concluded that, in the areas examined, there are some moderate weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide partial assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by moderate weaknesses in design or operation of controls and one or more MEDIUM or HIGH rated recommendations.</p>
No assurance	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are not suitably designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were not operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by significant weaknesses in design or operation of controls and several HIGH rated recommendations.</p>

Appendix 2 - Our assurance levels (cont'd)

The table below describes how we grade our audit recommendations.

Rating	Description	Possible features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> ▪ Key activity or control not designed or operating effectively ▪ Potential for fraud identified ▪ Non-compliance with key procedures / standards ▪ Non-compliance with regulation
Medium	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> ▪ Important activity or control not designed or operating effectively ▪ Impact is contained within the department and compensating controls would detect errors ▪ Possibility for fraud exists ▪ Control failures identified but not in key controls ▪ Non-compliance with procedures / standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	<ul style="list-style-type: none"> ▪ Minor control design or operational weakness ▪ Minor non-compliance with procedures / standards
Improvement	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> ▪ Information for management ▪ Control operating but not necessarily in accordance with best practice

