

# Internal Audit Annual Report and Annual Head of Internal Audit Opinion 2019/20

**Hinckley and Bosworth Borough Council**

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This report is confidential and is intended for use by the management and directors of The Hinckley and 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.

# Introduction

## **The Public Sector Internal Audit Standards (PSIAS) state that:**

“The Chief Audit Executive (Head of Internal Audit) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement”

“The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control”.

To meet the above requirements, this Annual Report summarises our conclusions and key findings from the internal audit work undertaken at Hinckley and Bosworth Borough Council during the year ended 31 March 2020, including our overall opinion on Hinckley and Bosworth Borough Council internal control system.

## **Acknowledgement**

We would like to take this opportunity to thank all member of management and staff for the help, courtesy and co-operation extended to us during the year.

# Internal Audit Summary

## Scope and responsibilities

It is management's responsibility to establish a sound internal control system. The internal control system comprises the whole network of systems and processes established to provide reasonable assurance that organisational objectives will be achieved, with particular reference to:

- Risk management
- The effectiveness of operations
- The economic and efficient use of resources
- Compliance and applicable policies, procedures, laws and regulations
- Safeguards against losses, including those arising from fraud, irregularity or corruption; and
- The integrity and reliability of information and data

## Internal audit

Internal Audit assists management by examining, evaluating and reporting on the controls in order to provide an independent assessment of the adequacy of the internal control system. To achieve this, Internal Audit should:

- Analyse the internal control system and establish a review programme
- Identify and evaluate the controls which are established to achieve objectives in the most economic and efficient manner
- Report findings and conclusions and, where appropriate, make recommendations for improvement
- Provide an opinion on the reliability of the controls in the system under review; and
- Provide an assurance based on the evaluation of the internal control system within the organisation as a whole

# Internal Audit Summary

## Good practice

In order to provide an annual assurance statement supporting the Governance Statement, we consider all of Hinckley and Bosworth Borough Council activities and systems, as aligned to key risks, within the scope of our internal audit reviews.

Our internal audit plans are designed to provide the Audit Committee with assurance that Hinckley and Bosworth Borough Council internal control system is effective in managing the organisation key risks and value for money is being achieved. Our plans are therefore linked to the organisation's corporate risk register.

The three-year Strategic Internal Audit Plan was agreed in consultation with senior management and formally approved by the Audit Committee in July 2019.

## Internal Audit planning

The Annual Internal Audit Plan is subject to revision throughout the year to reflect changes in your risk profile. We have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. However, internal audit can never guarantee to detect all fraud or other irregularities and cannot be held responsible for internal control failures.

## Internal Audit coverage

The Internal Audit Plan comprises 130 days per annum. On 20 March 2020, due to the impact of Covid-19, management requested that we suspend all internal audit activity until further notice. This included planning for the 2020/21 audit and completion of our work in relation to 2019/20. In September, we completed the work which, in the view of the Head of Internal Audit, needed to be completed in order to issue the Head of Internal Audit Opinion.

# Internal Audit Summary (continued)

## Incomplete Internal Audit reviews

The audits that are currently incomplete or outstanding at 6 October 2020 are as follows:

### Fieldwork nearing completion in March 2020 – to be finalised and reported to the next audit committee:

- Investment property Management
- Housing voids
- Cashless parking

### Terms of reference agreed and fieldwork started in March 2020 – arrangements for work to recommence to be confirmed by project sponsor:

- Housing options- homelessness
- Waste Management

### Work not started – scope of work and revised timetable to be discussed and agreed with management

- Building control

# Summary of reports by overall opinion

## Reports

We have prepared a report for each of the four internal audit reviews completed and presented these reports to the Audit Committee. Where relevant, all reports contained management action plans detailing responsible officers and implementation dates. The reports were fully discussed and agreed with management prior to submission to the Audit Committee.

The four internal audit reports that have been issued in 2019/20 are summarised in the table below. The definitions used to provide conclusions on reports, and the risk assessment of individual actions are set out in Appendix 1.

Review	Report conclusion	No. of recommendations raised			
		High risk	Medium risk	Low risk	Improvement
Financial systems	Significant assurance	-	-	2	3
Risk management	Significant assurance with some improvement required	-	-	4	1
Planning enforcement	Significant assurance with some improvement required	-	1	2	1
Revenues and benefits partnership	Significant assurance	-	-	-	3
<b>Total</b>		<b>0</b>	<b>1</b>	<b>8</b>	<b>8</b>

During the year we have raised 18 recommendations, all were accepted by management. No high risk recommendations have been raised 2019/20.

## Follow up of recommendations

We report to Audit Committee meetings management's progress in implementing internal audit recommendations. Due to the suspension of internal audit activities we do not have an up to date position on internal audit recommendations and will follow these up as part of our 2020/21 audit work.

# Performance of Internal Audit

## Independence

PSIAS require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We can confirm that the staff members involved in each 2019/20 internal audit review were independent of Hinckley and Bosworth's operational processes and their objectivity was not compromised in any way.

An employee of Grant Thornton UK LLP has a close family member who is an employee of Hinckley and Bosworth Borough Council. This employee has not or will not be involved in the internal audit, grant certification or any other services provided to the Council.

We can confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

## Conformance with Public Sector Internal Audit Standards

Based upon our ongoing assignment and client review processes, together with the results of any Quality Assurance inspections, we believe that we have complied with the Public Sector Internal Audit Standards.

## Quality control

Grant Thornton's aim is to provide a service that not only meets the Council's needs but also maintains consistently high standards. This is achieved through the following internal processes:

- Preparation of a detailed audit plan which is reviewed by the Head of Internal Audit prior to submission to the Audit Committee for approval;
- Regular review of progress against the plan to ensure we are delivering the work we have promised. In 2019/20, we have not completed all audit work as required due to management's decision to suspend all audit activities in March, due to the impact of COVID-19.
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to the firm's review protocol;
- The use of qualified, highly trained and experienced staff;
- The review of all audit files and reports by the Head of Internal Audit and Internal Audit Manager; and
- Reviews of a random sample of files by staff from other offices within the firm to ensure they comply with the Firm's standards of technical excellence and client service.



# Appendices

# Appendix 1 – Head of Internal Audit opinion

## Hinckley and Bosworth Borough Council

### Draft internal audit opinion for the year ended 31 March 2020

#### Basis of Opinion for the year ending 31 March 2020

This report is our annual summary of the internal audit work carried out for Hinckley and Bosworth Borough Council this year. All reports have been presented to the Audit Committee following their agreement with Management.

Our internal audit work was carried out in accordance with the Grant Thornton Internal Audit methodology, which complies with the Public Sector Internal Audit Standards (PSIAS). Our work was not designed to and therefore it does not comply with the International Framework for Assurance Engagements (IFAE) or International Standard on Assurance Engagements (ISAE) 3000.

In carrying out our work we are required to comply with applicable ethical standards, including being independent from Hinckley and Bosworth Borough Council.

#### Respective roles and responsibilities

The Council is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS) is an annual statement by the Accountable Officer, on behalf of the Council, setting out:

- How the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- The purpose of the system of internal control as evidenced by a description of the risk management and review processes;
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

The Head of Internal Audit is required to provide an annual opinion in accordance with the PSIAS, based upon and limited to the work performed, on the overall adequacy and effectiveness of the Council's risk management, control and governance processes (otherwise known as the system of internal control).

# Appendix 1 – Head of Internal Audit opinion

## Respective roles and responsibilities (continued)

The purpose of the Head of Internal Audit's Opinion is to contribute to the assurances available to the Accountable Officer and the Council, which underpin the Council's own assessment of the effectiveness of internal control. This Opinion will in turn assist the Council in the completion of the Annual Governance Statement (AGS).

The Opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation. It is achieved through the delivery of a risk-based programme of compliance, assurance and advisory work, agreed with management and approved by the Audit Committee.

## Operational assurance

The emergence of Covid-19 pandemic in early 2020 and the restrictions on movement and social distancing advised by the Government in March 2020 have impacted on the delivery of work initially planned. This matter has been considered in the forming of our Head of Internal Audit Opinion.

## Opinion

The basis of our opinion is an assessment of the range of individual assurances arising from our risk-based internal audit assignments that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas.

Our overall opinion for the period 1 April 2019 to 31 March 2020 is that based on the scope of reviews undertaken and the sample tests completed during the period, that:

**“Overall, significant assurance with some improvement required can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. There are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management. 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.”**

# Appendix 1 – Head of Internal Audit opinion

## **The range of individual opinions arising from risk-based audit assignments reported throughout the year**

Four internal audit reports have been issued in 2019/20. This includes two significant assurance opinion reports and two significant assurance with some improvement opinion reports. We have not raised any high risk recommendations.

There are no issues which prevent us from issuing an overall significant with minor improvements opinion.

Grant Thornton (UK) LLP

October 2020

# Appendix 2 - Our assurance levels

Rating	Description
<b>Significant assurance</b>	<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>
<b>Significant assurance with some improvement required</b>	<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>
<b>Partial assurance with improvement required</b>	<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>
<b>No assurance</b>	<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 1 - Our assurance levels (cont'd)

Rating	Description	Possible features
<b>High</b>	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"> <li>▪ Key activity or control not designed or operating effectively</li> <li>▪ Potential for fraud identified</li> <li>▪ Non-compliance with key procedures / standards</li> <li>▪ Non-compliance with regulation</li> </ul>
<b>Medium</b>	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"> <li>▪ Important activity or control not designed or operating effectively</li> <li>▪ Impact is contained within the department and compensating controls would detect errors</li> <li>▪ Possibility for fraud exists</li> <li>▪ Control failures identified but not in key controls</li> <li>▪ Non-compliance with procedures / standards (but not resulting in key control failure)</li> </ul>
<b>Low</b>	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"> <li>▪ Minor control design or operational weakness</li> <li>▪ Minor non-compliance with procedures / standards</li> </ul>
<b>Improvement</b>	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> <li>▪ Information for management</li> <li>▪ Control operating but not necessarily in accordance with best practice</li> </ul>

