Internal Audit Report 2016/17
Corporate Governance
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B. Terms of reference
C. Limitations and responsibilities

Distribution list

For action: Cal Bellavia, Consultation and Improvement Officer
Rebecca Owen, Democratic Services Officer
Julie Kenny, Chief Officer (Corporate Governance and Housing Repairs)

For information: Ashley Wilson, Section 151 Officer
Audit Committee

Internal Audit Report 2016/17
PwC

September 2016
# Executive summary (1 of 3)

## Report classification

**Low Risk** (5 points)

## Trend

There has been an improvement in performance from the prior year (2015/16: Medium risk)

## Total number of findings

<table>
<thead>
<tr>
<th></th>
<th>Critical</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
<th>Advisory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control design</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Operating effectiveness</td>
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<td>0</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>
Headlines/summary of findings

The Annual Governance Statement sets out the arrangements the Council has for corporate governance, along with its annual effectiveness review. Risk management is a fundamental part of the Council’s Corporate Governance. We reviewed the different sources of assurance referred to in the Annual Governance Statement and found these all to be implemented as described and operating effectively.

From 1 April 2016, the Council has implemented a revised committee structure which has separated the Finance, Audit and Performance Committee into two separate committees: Finance & Performance and Audit Committees. We have confirmed there are defined terms of reference and considered the membership of the revised governance arrangements compared to other local authorities.

The Council has in place a Risk Management Framework which sets out responsibilities of individual officers for risk and the processes by which risks are assessed and monitored. Risks are recorded on the ‘TEN’ performance management system, which also holds details of service improvement plans and performance indicators.

This review looked in detail at the arrangements surrounding management of risks and current governance structure at the Council and the outcome is a report with a low risk rating, as there was one medium and two low risk findings:

- **Documentation of risks**: our testing of 20 risks identified that 7 risks did not contain adequate mitigating actions. The Council has made some progress in making it easier for risk owners to update and document their risks using the system functionality but this requires further strengthening. A similar issue was identified in the previous year;

- **Constitution update**: the Constitution and other relevant governance documents should be updated to reflect the new committee structure; and

- **Scheme of delegation**: the Council should review its current scheme of delegation and determine what areas are to be delegated to the Audit Committee and action these promptly.
Headlines/summary of findings

There are appropriate procedures in place for Corporate Governance and Risk Management. On the whole, the process has been implemented effectively. The issues identified are largely around the effectiveness of the process and implementation of the recommended actions would strengthen the process and improve overall compliance with the defined Risk Management Framework currently in place.

We would like to thank all the staff involved for their help in supporting the internal audit review.
Current year findings (1 of 3)

Risk management and mitigating actions
Operating effectiveness

Finding and root cause

The Council maintains the TEN system to keep a record of all risks across the Corporate, Service and Project risk registers. In reviewing 20 risks from across the three registers as at August 2016 we identified that seven risks did not have adequate mitigating actions recorded on the system. Of these, one had no mitigating action at all. A similar issue was identified in the previous year. Details of the risks and mitigating actions are included on the next page.

Implications

Risks may not have been fully considered, understood and appropriate actions implemented to address the identified risk.

Action plan

Risk owners will be reminded that mitigating actions should be fully documented and that training is available on the terminology if required.

Responsible person/title: Cal Bellavia, Consultation and Improvement Officer
Target date: December 2016
Reference number: 1
# Current year findings (1 of 3)

<table>
<thead>
<tr>
<th>Risk reference number</th>
<th>Risk</th>
<th>Mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>HCS.84</td>
<td>Ending of funding for DA children's worker</td>
<td>Working with partners to influence commissioning decisions</td>
</tr>
<tr>
<td>HCS.91</td>
<td>Central government housing proposals, including the 1% rent reductions</td>
<td>Refresh of the HRA Investment Strategy</td>
</tr>
<tr>
<td>RGF.40</td>
<td>Risk of defects period extending beyond final funding date</td>
<td>Discussions on-going with HE to reduce defects period</td>
</tr>
<tr>
<td>S.43</td>
<td>Leicestershire County Council budget cuts</td>
<td>No mitigation included</td>
</tr>
<tr>
<td>S.48</td>
<td>Fire arrangements in commercial premises</td>
<td>Some measures in place that comply with legislation</td>
</tr>
<tr>
<td>HCS.86</td>
<td>Private rented sector becoming more expensive resulting in increase demand for housing options/council accommodation</td>
<td>Private sector leasing in place.</td>
</tr>
<tr>
<td>HCS.91</td>
<td>Central government housing proposals, including the 1% rent reduction</td>
<td>Refresh of the HRA Investment Strategy</td>
</tr>
</tbody>
</table>
Finding and root cause

From April 2016 the Council has implemented a revised governance structure which has separated the Finance, Audit and Performance Committee into two new committees: Audit and Finance & Performance. The Constitution was reviewed and changes approved by the full Council in May 2016. Review of the published Constitution and supporting governance documentation does not currently reflect the revised structure. These documents should be updated to reflect the new committee structure.

Implications

The published Constitution and governance documentation does not accurately reflect the current organisational structure.

Action plan

The published Constitution and other relevant governance documentation should be updated to reflect the two new committees including a separate Audit and Finance & Performance committee.

Responsible person/title:
Rebecca Owen, Democratic Services Officer

Target date:
December 2016

Reference number:
2
Current year findings (3 of 3)

Finding and root cause

From April 2016 the Council has implemented a revised governance structure which has created a separate Audit Committee. At present, full Council has retained ownership for all areas and no delegation of powers to the new Audit Committee has been actioned. The Council is planning to give the Audit Committee a full year of operation before any responsibilities are delegated and after this a review will take place and appropriate actions delegated. In order to maximise efficiency and responsibility within the new Committee the Council should review which areas are to be delegated and action this promptly rather than waiting a full year.

Implications

The scheme of delegations does not currently maximise efficiencies and give ownership to the Audit Committee.

Finding rating

- Impact: Low
- Likelihood: Low
- Rating: Low

Action plan

The constitution and scheme of delegation should be updated to reflect responsibilities within the new committee structure.

Responsible person/title:
Rebecca Owen, Democratic Services Officer

Target date:
December 2016

Reference number:
3
Current year findings – Governance Structure

We have reviewed the current number of committees and number of committee members and where possible compared them to other local district authorities within the Leicestershire area.

On average there are 11 committees at other Councils, with a range of between 8 and 15. HBBC has 10 committees which is on the lower end of this range but still considered to be appropriate.

In terms of membership we have compared, where possible, against similar committees at other Councils to identify the number of members sitting on each committee. In general HBBC has a higher number of members attending the Audit Committee, Planning Committee and Ethical, Governance & Personnel Committee. The average group has more members attending the Finance, Performance & Scrutiny, Licensing and Statutory Officer Employment Panel. Whilst there are some variances to the average group these represent a maximum of only three members difference so are considered to be broadly in line with other Councils. All other committees are largely in line with the average membership.

As part of our review we have not identified any specific concerns regarding the committee structure and membership and this is for information only.
| Appendix A: Basis of our classifications | Appendix B: Terms of reference | Appendix C: Limitations and responsibilities |

# Appendices
Appendix A: Basis of our classifications

**Individual finding ratings**

**Critical**
- Critical impact on operational performance; or
- Critical monetary or financial statement impact; or
- Critical breach in laws and regulations that could result in material fines or consequences; or
- Critical impact on the reputation or brand of the organisation which could threaten its future viability.

**High**
A finding that could have a:
- Significant impact on operational performance; or
- Significant monetary or financial statement impact; or
- Significant breach in laws and regulations resulting in significant fines and consequences; or
- Significant impact on the reputation or brand of the organisation.

**Medium**
A finding that could have a:
- Moderate impact on operational performance; or
- Moderate monetary or financial statement impact; or
- Moderate breach in laws and regulations resulting in fines and consequences; or
- Moderate impact on the reputation or brand of the organisation.
Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- Minor impact on the organisation’s operational; or
- Minor monetary or financial statement impact; or
- Minor breach in laws and regulations with limited consequences; or
- Minor impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

<table>
<thead>
<tr>
<th>Findings rating</th>
<th>Points per finding</th>
<th>Report classification</th>
<th>Option A</th>
<th>Points</th>
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</thead>
<tbody>
<tr>
<td>Critical</td>
<td>40 points per finding</td>
<td>Low risk</td>
<td>6 points or less</td>
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<tr>
<td>High</td>
<td>10 points per finding</td>
<td>Medium risk</td>
<td>7 – 15 points</td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>3 points per finding</td>
<td>High risk</td>
<td>16 – 39 points</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>1 point per finding</td>
<td>Critical risk</td>
<td>40 points and over</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B: Terms of reference

Terms of reference

Corporate Governance

To: Julie Kenny, Chief Officer (Corporate Governance and Housing Repairs)
From: Richard Bacon, Head of Internal Audit

www.pwc.co.uk
Background and audit objectives

This review is being undertaken as part of the 2016/2017 internal audit plan approved by the Audit Committee on 27 June 2016.

Background and audit objectives

Hinckley and Bosworth Borough Council has a responsibility for ensuring that there is a sound system of Corporate Governance which facilitates the effective exercise of the Council’s functions, and which includes arrangements for the management of risk. The Annual Governance Statement details how this is achieved through the Council’s Constitution and key policies and procedures.

Effective risk management is essential in helping any organization to improve governance, focus decision making and achieve objectives. Risk management is ensured through maintenance of risk registers and an awareness of risk throughout an organization. The Council’s risk register is integrated within the performance management system and reported quarterly to the Audit Committee.

The Council has restructured its Committees from April 2016 to improve the Governance arrangements and define clearer roles and responsibilities. There are new terms of reference for each Committee which are based on best practice examples and membership appropriate for each Committee.
Audit scope and approach (1 of 2)

**Scope**

We will review the design and operating effectiveness of key monitoring controls in place relating to Corporate Governance during the period from April 2016 to the date of the audit fieldwork.

The sub-processes, risks and related control objectives included in this review are:

<table>
<thead>
<tr>
<th>Sub-process</th>
<th>Risks</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Management</td>
<td>• Without risk management there is a concern that the Council will be vulnerable to threats.</td>
<td>• All risks are regularly monitored and mitigation measures updated as necessary</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The risk register is reported to a sufficient level of management to ensure awareness and recognition of risks at a corporate level.</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>• The mechanisms in place at the Council do not adequately govern the Council’s actions</td>
<td>• Sources of assurance referenced in the Annual Governance Statement are in place and operating effectively to provide adequate governance arrangements to the Council</td>
</tr>
<tr>
<td>Committee Structure</td>
<td>• The new Committee structure does not provide adequate governance</td>
<td>• The revised Committee structure provides an effective mechanism for governance and terms of reference are in place for all Committees</td>
</tr>
</tbody>
</table>
Audit scope and approach (2 of 2)

Limitations of scope
The scope of our work will be limited to those areas outlined above. Our review will be performed in the context of the information provided to us.

Audit approach
Our audit approach is as follows:

- Obtain an understanding of Corporate Governance through discussions with key personnel and review of systems documentation;
- Identify the key risks of Corporate Governance;
- Evaluate the design of the controls in place to address the key risks; and
- Test the operating effectiveness of the key controls.
Internal audit team and key contacts

**Internal audit team**

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>Contact details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richard Bacon</td>
<td>Head of Internal Audit</td>
<td><a href="mailto:richard.f.bacon@uk.pwc.com">richard.f.bacon@uk.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0121 265 5492</td>
</tr>
<tr>
<td>Chris Dickens</td>
<td>Internal Audit Senior Manager</td>
<td><a href="mailto:chris.dickens@uk.pwc.com">chris.dickens@uk.pwc.com</a></td>
</tr>
<tr>
<td>Jodie Stead</td>
<td>Internal Audit Manager</td>
<td><a href="mailto:jodie.a.stead@uk.pwc.com">jodie.a.stead@uk.pwc.com</a></td>
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<tr>
<td></td>
<td></td>
<td>07753 459227</td>
</tr>
<tr>
<td>TBC</td>
<td>Internal Audit Team Member</td>
<td>TBC</td>
</tr>
</tbody>
</table>

**Key contacts – Hinckley and Bosworth Borough Council**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ashley Wilson</td>
<td>Section 151 Officer</td>
</tr>
<tr>
<td>Julie Kenny</td>
<td>Chief Officer (Corporate Governance and Housing Repairs)</td>
</tr>
<tr>
<td>Cal Bellavia</td>
<td>Consultation and Improvement Officer</td>
</tr>
<tr>
<td>Rebecca Owen</td>
<td>Democratic Services Officer</td>
</tr>
</tbody>
</table>
### Timetable and information request

#### Timetable

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fieldwork start</td>
<td>10 August 2016</td>
</tr>
<tr>
<td>Fieldwork completed</td>
<td>19 August 2016</td>
</tr>
<tr>
<td>Draft report to client</td>
<td>2 September 2016</td>
</tr>
<tr>
<td>Response from client</td>
<td>9 September 2016</td>
</tr>
<tr>
<td>Final report to client</td>
<td>16 September 2016</td>
</tr>
</tbody>
</table>

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request.
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

*Please note that if Hinckley and Bosworth Borough Council requests the audit timing to be changed at short notice and the audit staff cannot be deployed to other client work, Hinckley and Bosworth Borough Council may still be charged for all/some of this time. PwC will make every effort to redeploy audit staff in such circumstances.*

#### Information request

- Risk register
- New committee terms of reference
- Previous committee terms of reference
Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor’s work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; 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 and 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.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.
This document has been prepared only for Hinckley and Bosworth Borough Council and solely for the purpose and on the terms agreed with Hinckley and Bosworth Borough Council in our agreement dated 10 May 2016. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

In the event that, pursuant to a request which Hinckley and Bosworth Borough Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), Hinckley and Bosworth Borough Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Hinckley and Bosworth Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such [report]. If, following consultation with PwC, Hinckley and Bosworth Borough Council discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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