



Hinckley & Bosworth
Borough Council

A Borough to be proud of

Date: 17 June 2016

To: **Members of the Audit Committee**

Mrs R Camamile (Chairman)
Mr P Wallace (Vice-Chairman)
Mrs MA Cook
Mr DS Cope
Mrs L Hodgkins
Mr MR Lay

Mr KWP Lynch
Mr LJP O'Shea
Mrs J Richards
Miss DM Taylor
Mr HG Williams

Copy to all other Members of the Council

(other recipients for information)

Dear member,

There will be a meeting of the **AUDIT COMMITTEE** in the De Montfort Suite, Hinckley Hub on **MONDAY, 27 JUNE 2016 at 6.30 pm** and your attendance is required.

The agenda for the meeting is set out overleaf.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Owen'.

Rebecca Owen
Democratic Services Officer

AUDIT COMMITTEE - 27 JUNE 2016

A G E N D A

1. APOLOGIES AND SUBSTITUTIONS

2. ADDITIONAL URGENT BUSINESS BY REASON OF SPECIAL CIRCUMSTANCES

To be advised of any additional items of business which the Chairman decides by reason of special circumstances shall be taken as matters of urgency at this meeting (to be taken at the end of the agenda).

3. DECLARATIONS OF INTEREST

To receive verbally from members any disclosures which they are required to make in accordance with the Council's code of conduct or in pursuance of Section 106 of the Local Government Finance Act 1992. **This is in addition to the need for such disclosure to be also given when the relevant matter is reached on the agenda.**

4. QUESTIONS

To hear any questions received in accordance with Council Procedure Rule 10.

5. INTERNAL AUDIT ANNUAL REPORT 2015/16 (Pages 1 - 16)

Report of the Internal Auditor outlining the work carried out for the year ended 31 March 2016.

6. INTERNAL AUDIT REPORT 2015/16 - FINANCIAL SYSTEMS (Pages 17 - 40)

Report of the Internal Auditor following the audit of financial systems.

7. INTERNAL AUDIT REPORT 2015/16 - MEDIUM TERM FINANCIAL STRATEGY
(Pages 41 - 58)

Report of the Internal Auditor following an audit of the Medium Term Financial Strategy.

8. INTERNAL AUDIT RISK ASSESSMENT AND PLAN 2016/17 (Pages 59 - 74)

Report of the Internal Auditor setting out their risk assessment and internal audit plan for the council.

9. INTERNAL AUDIT CHARTER (Pages 75 - 80)

Report of the Internal Auditor providing the framework for the conduct of the Internal Audit function.

10. DRAFT ANNUAL GOVERNANCE STATEMENT (Pages 81 - 92)

Draft Annual Governance Statement attached.

11. ANY OTHER ITEMS OF BUSINESS WHICH THE CHAIRMAN DECIDES HAVE TO BE DEALT WITH AS MATTERS OF URGENCY

As announced at item 2.

Internal Audit Annual Report 2015/2016

Hinckley and
Bosworth Borough
Council

April 2016

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Distribution List

For information: Section 151 officer

 Members of the Finance, Audit and Performance Committee

This document has been prepared only for Hinckley and Bosworth Borough Council (the Council) and solely for the purpose and on the terms agreed with the Council under our engagement letter, contract and annual plan.

1. Executive summary

Introduction

This report outlines the internal audit work we have carried out for the year ended 31st March 2016.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Finance, Audit and Performance Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Finance, Audit and Performance Committee agreed to a level of internal audit input of 115 days, of which 100 days were delivered.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards.

Internal Audit Services

Members will be aware that PwC were the external auditors for the Council until the completion and approval of the Council's 2014/15 Statement of Accounts. In order to comply with guidelines on appointment, whilst PwC provided support to the Council by providing assurance reports from 1st April 2015, we were not permitted to take up the formal management role of "Head of Internal Audit" until the point that the 2014/2015 Statement of Accounts opinion and related Certificate were signed. Until that time, the role of Head of Internal Audit was undertaken by the Chief Officer (Finance, Customer Services and Compliance).

Following our completion of the External Audit contract we have agreed contractual terms for the formal outsourcing of the Internal Audit Contract. This report provides assurance on the whole year based on the work we have been commissioned to undertake by the Council and reports issued in the name of the Council in addition to the work undertaken under the outsourced Internal Audit Contract.

We have discussed and agreed this report with the Interim Head of Finance in their capacity as Head of Internal Audit for the period at the start of the year.

Head of Internal Audit Opinion

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

Opinion

Our opinion is as follows:

Satisfactory	Generally satisfactory with some improvements required	Major improvement required	Unsatisfactory
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Governance, risk management and control in relation to business critical areas is generally satisfactory. However, there are some areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk.

Some improvements are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Please see our Summary of Findings in Section 2.

An explanation of the types of opinion that may be given can be found in Appendix 2.

Basis of opinion

Our opinion is based on the results of the audits undertaken during the year and insight gained from our regular attendance at the following:

- Finance, Audit and Performance Committee
- Corporate Direction Management Team meetings
- Community Direction Service Managers meetings

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Commentary

In summary, our opinion is based on the following:

- None of the individual weaknesses or overall reports had a classification of critical risk;
- One high risk rated weakness was identified in the Financial Systems review but this was isolated to a specific process; and
- Medium risk rated weaknesses were identified in individual assignments but these were not considered significant in aggregate to the system of internal control.

Our Financial Systems review identified a high risk finding which directly links to the Council's financial control process. We identified that during the current financial year bank reconciliations have only been performed for April 2015 and May 2015. Whilst we were able to confirm that the reconciliations completed were performed correctly, bank reconciliations are clearly not performed on a sufficiently regular basis to demonstrate a strong control process.

All other reports and individual findings were rated as medium or low risk findings. These have been summarised in section 3 below and detailed information included within the individual reports produced and shared with management.

Acknowledgement

We would like to take this opportunity to thank Hinckley and Bosworth Borough Council staff, for their co-operation and assistance provided during the year.

2. Summary of findings

Our annual internal audit report is timed to inform the organisation's Annual Governance Statement.

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

<i>Description</i>	<i>Detail</i>
<p>Overview</p> <p>We completed 12 internal audit reviews. This resulted in the identification of 1 high, 14 medium and 22 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness.</p>	<p>The table in section three below shows all reviews undertaken during the year and the results of these.</p> <p>In addition we have carried out a Project Management value enhancement review where no risk rating has been provided.</p>
<p>Internal Control Issues</p> <p>During the course of our work we identified no weaknesses that we consider should be reported in your Annual Governance Statement.</p>	<p>We have reported one high risk finding as part of our work in 2015/16, relating to the production of bank reconciliations. We have referenced the high risk finding above and other key factors that contributed to our opinion.</p> <p>It is not considered necessary to report this weakness as part of your Annual Governance Statement</p>
<p>Other weaknesses</p> <p>Other weaknesses were identified within the organisation's governance, risk management and control.</p>	<p>Medium and low risk issues arose across a range of reviews, as shown in section 3.</p>
<p>Follow up</p> <p>During the year we have undertaken follow up work on actions agreed with the previous Internal Auditors.</p>	<p>A specific Housing Rents follow up review was performed. There was evidence that the council had followed the agreed actions and made progress which resulted in a low risk report being issued.</p> <p>We have also implemented a new system, TrAction, which the Council now uses to record all internal audit findings and monitor progress in implementing recommended actions. We have worked with management throughout the year to review the recommendations and actions agreed with the previous internal auditors to ensure they are all still relevant and we will follow these up as part of the 2016/17 plan.</p>
<p>Good practice</p> <p>We also identified a number of areas where few weaknesses were identified and / or areas of good practice.</p>	<p>The following reviews were classified as low risk:</p> <ul style="list-style-type: none"> • Medium Term Financial Strategy • Housing Repairs • Town Centre Management • Business Rates

3. Internal Audit work conducted

Introduction

The table below sets out the results of our internal audit work and implications for next year's plan.

We also include a comparison between planned internal audit activity and actual activity.

Draft reports

At the time of writing this report the following reports are still in draft format and with management for comments:

- Housing Rents – issued 18/04/2016
- Financial Systems – issued 29/02/2016
- Medium Term Financial Strategy – issued 05/04/2016

Results of individual assignments

<i>Review</i>	<i>Report classification</i>	<i>Number of findings</i>			
		<i>Critical</i>	<i>High</i>	<i>Medium</i>	<i>Low</i>
Financial Systems	High	0	1	2	3
Medium Term Financial Strategy – draft with management for comments	Low	0	0	0	1
Corporate Governance and Risk Management	Medium	0	0	2	3
Project Management	No classification provided				
Safeguarding	Medium	0	0	1	4
Housing Rents – draft with management for comments	Medium	0	0	2	2
Building Control	Medium	0	0	3	2
Town Centre Management	Low	0	0	1	3
Housing Repairs	Low	0	0	1	1
Council Tax	Medium	0	0	2	1
Business Rates	Low	0	0	0	2
Housing Benefits	No classification provided				
	Total	0	1	14	22

Comparison of planned and actual activity

<i>Audit Unit</i>	<i>Budgeted days</i>	<i>Actual days</i>
Financial Systems	20	20
Medium Term Financial Strategy	5	5
Corporate Governance and Risk Management	7	7
Partnerships/ Joint Arrangement	5	0.25
Project Management	15	15
Safeguarding	10	10
Housing Rents	5	5
HRA Investment Plan	5	0.25
Building Control	5	5
Town Centre Management	5	5
Recycling and Refuse Collection	5	0.5
Housing Repairs	5	5
Council Tax	5	5
Business Rates	5	5
Housing Benefits (contingency)	3	3
Project Management	10	10
Total	115	101

Variations in planned activity

<i>Audit Unit</i>	<i>Budgeted days</i>	<i>Actual days</i>	<i>Comments</i>
Partnerships and Joint Arrangements	5	0.25	From discussions with the Chief Officers of both Housing, Community Safety & Partnerships and Corporate Governance & Housing Repairs it is understood that management would like to take more time to identify an appropriate partnership to be subject to a detailed internal audit review and this requires discussion with stakeholders and management. Instead, the scope of the Partnerships and Joint Arrangements review will be extended and included as part of the 2016/17 Internal Audit Plan
HRA Investment Plan	5	0.25	From discussions with the Chief Officer (Housing, Community Safety & Partnerships) it is understood that following on from Central Government legislative changes and the reduced available investment budget the HRA Investment Strategy is due to be rewritten over the coming months. It was agreed it would be more beneficial

			to have an audit next year once the new strategy is adopted and we can assess delivery against the new HRA Investment Plan. As a result it is proposed that the HRA Investment Plan review will be performed as part of the 2016/17 Internal Audit Plan
Recycling and Refuse Collection	5	0.5	A scoping meeting was held and terms of reference developed; however owing to the late implementation of the recycling charges the department is now committed to delivering this new programme and it is not considered appropriate to conduct an internal audit review simultaneously. Instead it is proposed that the Recycling and Refuse Collection review will be considered for inclusion in the 2016/17 Internal Audit Plan
Total	15	1	

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Finance, Audit and Performance Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

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 relating to Hinckley and Bosworth Borough Council is for the period 1st April 2015 to 31st March 2016. Historic 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, regulation or other; 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 shall 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, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.





<i>Type of opinion</i>	<i>Indication of when this type of opinion may be given</i>
Satisfactory	<ul style="list-style-type: none"> • A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and • None of the individual assignment reports have an overall report classification of either high or critical risk.
Generally satisfactory with some improvements required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and • A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or • <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> • An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> ○ Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or ○ We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Appendix 3: Basis of our classifications

Report classifications

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

<i>Findings rating</i>	<i>Points</i>
<i>Critical</i>	40 points per finding
<i>High</i>	10 points per finding
<i>Medium</i>	3 points per finding
<i>Low</i>	1 point per finding

<i>Report classification</i>		<i>Points</i>
	Critical risk	40 points and over
	High risk	16– 39 points
	Medium risk	7– 15 points
	Low risk	6 points or less

Individual finding ratings

<i>Finding rating</i>	<i>Assessment rationale</i>
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; 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	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>



In the event that, pursuant to a request which Hinckley and Bosworth Borough Council has received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. 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 Act to such information. If, following consultation with PwC, Hinckley and Bosworth Borough Council discloses any such information, 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.

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 April 2015. 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 Report 2015/2016

Financial Systems

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April 2016

Hinckley and Bosworth
Borough Council

Agenda Item 6

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2. *Detailed current year findings*

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2 Internal audit work was performed in accordance with 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.

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Distribution List

For action	Ashley Wilson (Interim Head of Finance)
	Ilyas Bham (Accountancy Manager)
	Beverley Bee (Payroll Manager)
For information	Sanjiv Kohli (Deputy Chief Executive, Corporate Direction)

1. Executive summary

<i>Financial System</i>	<i>Report classification</i>	<i>Total number of findings</i>					
		Critical	High	Medium	Low	Advisory	
General ledger	 Low risk (3 points)	Control design	-	-	-	-	-
		Operating effectiveness	-	-	1	-	-
		Total	-	-	1	-	-
Income and debtors	 Low risk (1 point)	Control design	-	-	-	1	-
		Operating effectiveness	-	-	-	-	-
		Total	-	-	-	1	-
Expenditure and creditors	 Low risk (4 points)	Control design	-	-	1	-	-
		Operating effectiveness	-	-	-	1	-
		Total	-	-	1	1	-
Bank, cash and treasury management	 Medium risk (10 points)	Control design	-	-	-	-	-
		Operating effectiveness	-	1	-	-	-
		Total	-	1	-	-	-

		Critical	High	Medium	Low	Advisory	
Fixed assets	 No issues identified						
		Control design	-	-	-	-	-
		Operating effectiveness	-	-	-	-	-
		Total	-	-	-	-	-
Budgetary control	 No issues identified						
		Control design	-	-	-	-	-
		Operating effectiveness	-	-	-	-	-
		Total	-	-	-	-	-
Payroll	 Low risk (1 point)						
		Control design	-	-	-	-	1
		Operating effectiveness	-	-	-	1	1
		Total	-	-	-	1	2

Headlines / summary of findings:

Introduction

At the end of the financial year 2014/15 Hinckley and Bosworth Borough Council held substantial usable reserves of £22,924k. The most recent outturn report shows £11,868,892 being spent on services in 2015/16 with a net amount of £33,365 being transferred from earmarked reserves and £188,634 being transferred to General Fund balances. A net underspend of £29,178 is forecast to year end.

This review considered controls and processes in place across the following key financial systems:

- General ledger;
- Income and debtors;
- Expenditure and creditors;
- Bank, cash and treasury management;
- Fixed assets;
- Budgetary control; and
- Payroll.

In addition to agreeing which controls we would test with management, we consulted the Council's external auditors (EY) to ensure that our testing met external audit requirements. We tested the key controls set out in the Terms of Reference included at Appendix 2. Our findings and risk ratings have been split in to each financial system area.

General ledger

We have performed detailed analysis on the entire data set of journals posted in the period from 1st April 2015 to 30th November 2015 and as part of this confirmed that there is adequate separation of duties when creating and approving journals. We have presented some of our analysis in Appendix 1.

Sub ledgers should be regularly reconciled to the general ledger to ensure that the main accounting records are accurate. Our testing of reconciliations between sub ledgers and the general ledger found that reconciliations are performed regularly but in some cases there is no independent oversight of the accuracy and completion of the reconciliations. We recommend that a second officer should review reconciliations and their completion should be monitored.

Income and debtors

Our testing of the processes surrounding aged debtor analysis identified that some improvements could be made. There is currently significant manual intervention in aged debt monitoring and the functionality of the finance package could be better utilised in this area.

Responsibility for collecting debt and initiating write offs lies with the individual service departments. There is a large value of debt (approx. £1m) dating from 2013 and earlier and consideration should be given to undertaking a one-off exercise to review and write off this debt where necessary.

Expenditure and creditors

The current procedure for amending supplier details, including bank details, is that officers are informed of amendments required or changes are identified on supplier invoices, then the validity of these amendments is confirmed directly with the supplier through a telephone call or email before processing. Regular monitoring and review of amendments by an independent officer can help identify any unusual changes requiring investigation. Instances of fraud against public sector bodies arising from changes to supplier data have increased in recent years therefore we recommend this additional control is put in place.

We performed detailed testing on a sample of 25 expenditure items. We found 6 purchase orders were raised and approved on the same date as, or at a later date than, the invoice date. Analysis of the whole population of invoices recorded in the financial year to date identified that 9.9% of invoices had purchase orders dated one or more days after the invoice date. Furthermore, 49% of invoice lines were paid without a purchase order recorded against them (though approval at invoice level was obtained).

The practise of raising retrospective purchase orders should be discouraged as it allows officers to bypass approved suppliers and quotation requirements and we recommend that officers should be reminded of this. The Council should also consider introducing a process whereby if an invoice is received without a purchase order it is returned to the supplier.

Bank, cash and treasury management

As part of the month end process bank reconciliations should be performed. We found that reconciliations had not been performed since May 2015 due to an issue with staff capacity. There is now a timetable in place for the outstanding reconciliations to be performed and the Council should ensure that responsibility for performing and reviewing bank reconciliations going forward is clearly defined.

Fixed assets

The fixed asset register is updated at year end so we were unable to fully test this at the time of our audit work. We have considered the processes in place to ensure that additions and disposals are correctly identified and approved and identified no issues. We have reviewed the current fixed asset register and confirmed that depreciation charges are in line with the Council's policy.

Budgetary control

No issues were identified.

Payroll

The Council's expenses policy requires claims to be submitted within two months of expenses being incurred. We tested 25 expense claims made and found that one related to expenditure backdated over the previous two years. This was approved by exception because the claimant had not been aware that they were eligible to claim expenses. We propose that the Council should ensure that the expenses policy is communicated effectively to all officers.

We also found some minor issues with recording of employee documentation and recommend that payroll officers are reminded of the correct procedures to follow.

2. Detailed current year findings

1. Bank reconciliations are not regularly performed – operating effectiveness

Finding

We performed testing over monthly bank reconciliations to confirm that they are performed accurately, timely and subject to independent review.

In the current financial year bank reconciliations have only been performed for April and May. Whilst we were able to confirm that the reconciliations completed were performed correctly, bank reconciliations are clearly not performed on a monthly basis. We understand that this is due to a member of staff leaving the Council in June 2015 and ensuing capacity issues.

Since our work was completed a schedule has been put in place with named officers and target dates to ensure that bank reconciliations are up to date by the end of the financial year.

Implications

Discrepancies may exist between the financial systems and the bank account, resulting in inappropriate reporting and decision making.

Errors and frauds are not identified on a timely basis.

Action plan

Finding rating


High risk

Agreed action

- The outstanding bank reconciliations for 2015/16 will be performed and reviewed according to the new schedule.
- From 2016/17 bank reconciliations will be performed and reviewed monthly by appropriate named officers.

Responsible person / title

Ilyas Bham (Accountancy Manager)

Target date:

1st May 2016

Reference number:

FS01

2. Reconciliations between sub ledgers and the general ledger are not reviewed – operating effectiveness

Finding

As part of the month end process a number of control accounts are reconciled to the general ledger. We selected two reconciliations to test for the following sub ledgers:

- payroll
- council tax/NNDR
- creditors control
- debtors control

Reconciliations were performed on a timely basis for all sub ledgers. Of the two reconciliations we selected to test for council tax/NNDR and payroll there was no evidence of review by a separate officer.

We understand that a 'tick-sheet' was previously used to monitor the completion and review of reconciliations, however this is no longer utilised.

Implications

Errors made in reconciliations are not identified.

Action plan

Finding rating



Medium risk

Agreed action

- Reconciliations will be reviewed and signed off as accurate and complete by an appropriate, independent officer.
- A schedule for performing and reviewing reconciliations will be created so responsibilities are clear. Adherence to the schedule will be monitored by a senior officer.

Responsible person / title

Ilyas Bham (Accountancy Manager)

Target date:

1st May 2016

Reference number:

FS02

3. Changes to supplier details are not monitored effectively – control design

Finding

When a supplier contacts the Council to change their contact or bank details, the officer receiving the request places a follow-up call or email to the supplier to ensure that the request is genuine. Evidence is retained to support this check and the supplier's details are updated on the system.

We were unable to obtain a complete listing of changes made to supplier details to fully test whether appropriate checks had been made prior to changes being processed. The system holds records of amendments at individual supplier level, but we were told that it is not currently feasible to run a report detailing all changes made. We tested one supplier amendment identified from a note on an invoice and found that the correct procedure was followed, but it is not possible for us to conclude from this that the process is operating effectively overall due to the lack of documentation available.

As a complete list of amendments is not available, there is no oversight by management of changes to supplier details. Supplier amendments should be monitored by an officer independent of those making the changes.

Implications

There is no clear audit trail for amending supplier details.

Lack of oversight of supplier amendments could lead to inappropriate/fraudulent changes not being identified, and monetary loss to the Council.

Action plan

Finding rating


Medium risk

Agreed action

- The Council has engaged with the software supplier generate a report detailing changes to supplier details. It will be reviewed and approved by the team leader on a weekly basis.
- This report will be reviewed for reasonableness by an independent officer on a monthly basis.

Responsible person / title

Ilyas Bham (Accountancy Manager)

Target date:

1st May 2016

Reference number:

FS03

4. Aged debt reporting – control design

Finding

We have reviewed the processes in place for monitoring and writing off aged debts. Monitoring aged debt involves running a report from the system and manually typing information from this into an Excel spreadsheet used to analyse aged debts. This is labour intensive and, while part of the process is required to enable reporting in the style required by senior officers, the functionality of the financial package could be better utilised to increase automation.

Responsibility for pursuing outstanding debt and identifying debts for write off is devolved to service departments. There is a large value of debt (approx. £1m) dating from 2013 and earlier, and consideration should be given to undertaking a one-off exercise to review and write off this debt where necessary.

Implications

Complex manual process may lead to errors being made in the aged debt analysis, and resource could be more effectively utilised elsewhere.

The large value of uncollectable debts causes an administrative burden as they are analysed each month, and there is a risk that Receivables could be overstated in the financial statements.

Action plan

Finding rating


Low risk

Agreed action

- Engage with the IT department or the software provider to train finance staff on how to run aged debt reports from the system in the format which is required.
- Consider undertaking a one-off exercise to review aged debt and write off where necessary.

Responsible person / title

Ilyas Bham (Accountancy Manager)

Target date:

30th June 2016

Reference number [optional]:

FS04

5. Use of purchase orders – operating effectiveness

Finding

Retrospective purchase orders

We performed detailed testing on a sample of 25 expenditure items. We found that for 6 items tested the purchase order was raised on or after the invoice date. We followed this up by analysing the whole population of invoices raised in the financial year to date and identified that 738 invoices, or 9.9% of the total number of invoices recorded, had purchase orders dated one or more days after the invoice date.

The Council's Financial Procedure Rules require that orders are placed through the official ordering process unless urgent. We understand that retrospective purchase orders are discouraged and a list of persistent offenders at service level is reported quarterly to the Corporate Operations Board.

Invoices paid without purchase orders

We also identified from our data analysis that 5008 invoice lines (49% of the total recorded in the period) totalling £234,085k were paid but did not have a purchase order recorded against them. Of these, £166,000k related to investments and £35,000k to precepts.

Implications

Inappropriate purchases may be made.

Value for money may not be obtained.

Action plan

Finding rating


Low risk

Agreed action

- Communicate to officers that purchase orders should be used for all purchases (allowing for identified exceptions) to ensure that procurement controls are not bypassed.
- Consider returning invoices which do not contain purchase order details to suppliers, in order for a purchase order to be raised prior to payment.

Responsible person / title

Ilyas Bham (Accountancy Manager)

Target date:

31st March 2016

Reference number [optional]:

FS05

6. Expense claims – operating effectiveness

Finding

The Council's expense policy states that all expenses should be claimed within a period of two months. We tested a sample of 25 expense claims to ensure the correct process had been followed.

One of the items tested was a claim for mileage covering the previous two years, amounting to £1,468. A working paper was provided which fully supported the total claim amount. The claim was made late due to the employee being unaware that they could submit expense claims.

Implications

When claims are not timely they are more likely to be inaccurate and difficult to verify.

Action plan

Finding rating



Low risk

Agreed action

The Council will ensure that the expenses policy is communicated effectively to all officers.

Responsible person / title

Beverley Bee (Payroll Manager)

Target date:

31st March 2016

Reference number [optional]:

FS06

7. Mileage expenses – advisory

Finding

Our testing of travel expenses identified that postcodes are not recorded in claims. This makes it difficult for the Council to verify the accuracy of mileage claims.

Recommendation

Consider amending the expenses policy to require that employees should include relevant postcodes when making mileage expense claims.

8. Payroll incomplete documentation – advisory

Finding

All documentation for Starters and Leavers is stored on the payroll system Anite. We tested a sample of 20 starters and 20 leavers to ensure that the Council is operating in accordance with its procedures. We noted that employee documentation was missing from Anite for 2 starters. We viewed the hardcopy documents but these had not been scanned onto the system.

We also identified that no leavers form was completed for one of the leavers tested. The employee in question had only worked for one week and was input and removed on the payroll system on the same day.

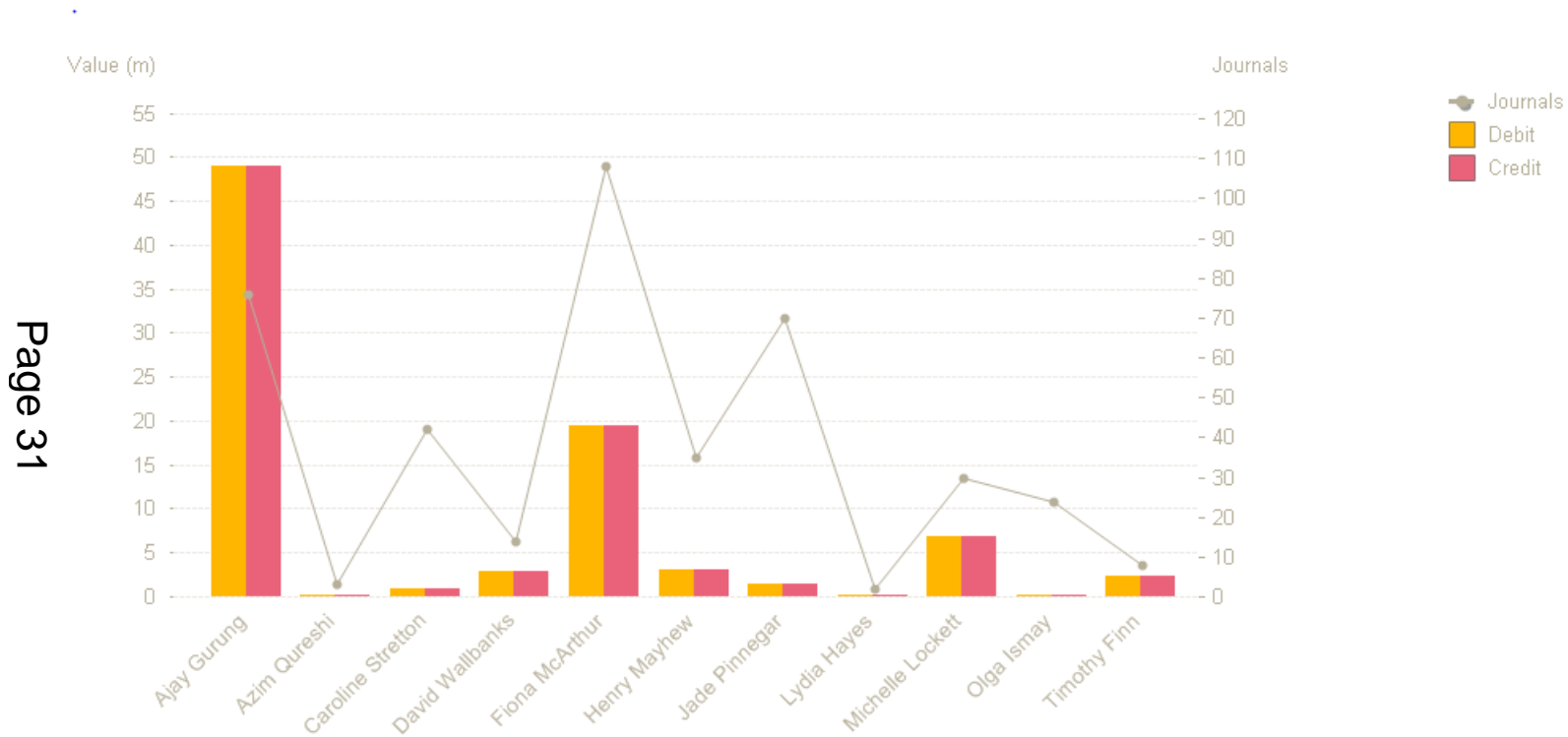
Recommendation

All documentation should be scanned, uploaded and indexed onto Anite on a timely basis.

The process for leavers should be followed and appropriate documents should be completed regardless of length of service.

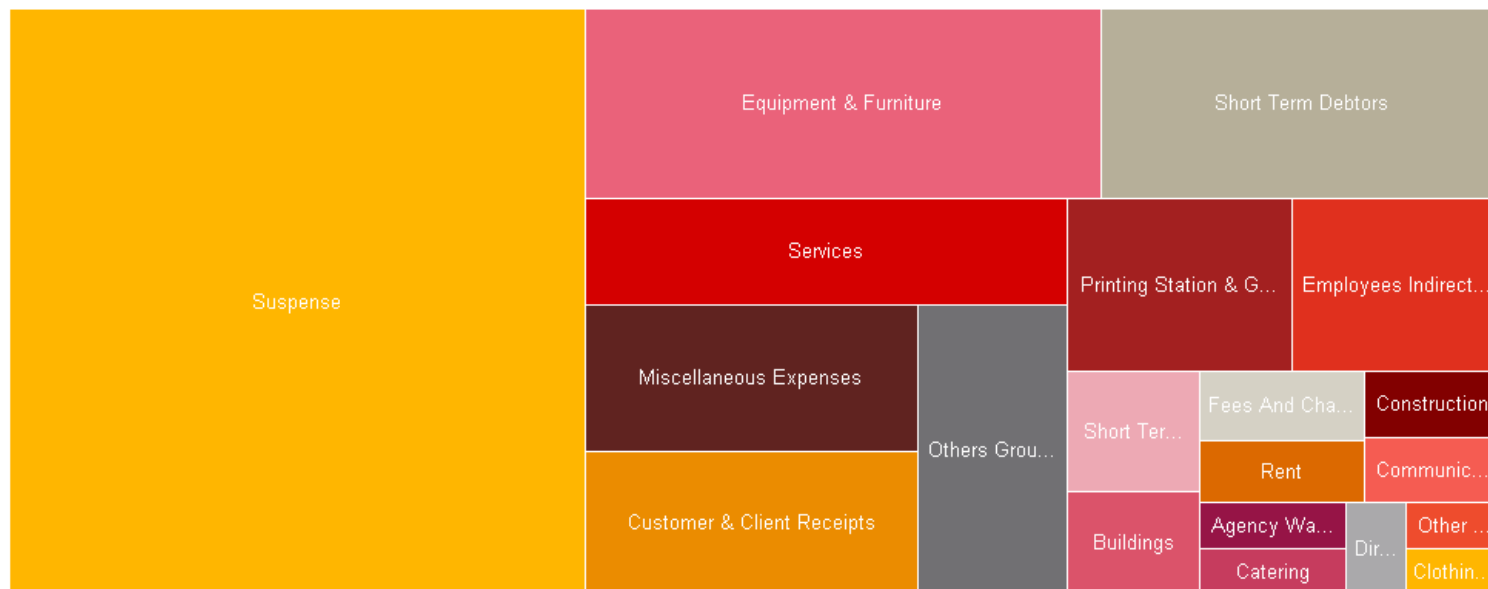
Appendix 1. Data analysis of journals

Analysis of journals raised by individual officer



Analysis of reversing journals

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The chart shows relative amounts of reversing journals posted based on account type.

1.6% of journal lines raised in the period tested were subject to reversal or were raised to reverse previous journals.

The majority of the journals involved the suspense account Z9998.

By value, the biggest lines of account were Cash and Cash Equivalents at £4,313k and Temporary Borrowings at £3,737k.

Analysis of journals posted at the weekend

Our analysis of journals posted between 1st April 2015 and the date of the audit revealed that no journals were posted on Saturdays or Sundays.

Appendix 2. Basis of our classifications

Individual finding ratings





<i>Finding rating</i>	<i>Assessment rationale</i>
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; 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.

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Report classifications

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

<i>Findings rating</i>	<i>Points</i>
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

<i>Report classification</i>	<i>Points</i>
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

Appendix 2. Terms of Reference

To: Ashley Wilson (Interim Head of Finance), Ilyas Bham, Accountancy Manager
From: Kate Mulhearn, Internal Audit Senior Manager

This review is being undertaken as part of the 2015/16 internal audit plan approved in draft by the Finance, Audit and Performance Committee on 13th April 2015.

Background

The Financial Systems review is being undertaken as part of risk based assurance work included in the 2015/16 Internal Audit plan.

This review will cover the following systems:

- General ledger
- Income & debtors
- Expenditure & creditors
- Bank, cash and treasury management
- Fixed assets
- Budgetary control
- Payroll

Scope

We will review the control design and operating effectiveness of aspects of the key financial systems during the period 1 April 2015 to the audit date. The sub-processes and related control objectives included in this review are:

Sub-process	Objectives
General ledger	<ul style="list-style-type: none">• Journals are posted and authorised by appropriate officers.• Journal listings are complete and reconcile to the list of deleted journals held by finance.• Reconciliations between the general ledger and sub ledgers are performed timely and are appropriately reviewed.
Income & debtors	<ul style="list-style-type: none">• Income received is allocated to the correct invoice.• Unallocated cash is cleared regularly.• Debtors invoices are raised in all appropriate circumstances.• Debtor ageing is monitored and timely recovery action taken.
Expenditure & creditors	<ul style="list-style-type: none">• Changes to supplier bank details are controlled and monitored to ensure validity of suppliers.• Payments are only made for goods which have been authorised and received.• HSBC net payments satisfy the requirement of being urgent payments, and are correctly authorised.
Bank, cash and treasury management	<ul style="list-style-type: none">• Bank reconciliations are accurate, timely and independently reviewed.• Cash flow forecasting is performed on a timely basis and is based on reasonable assumptions.• Investments and borrowings are in compliance with the Council's Treasury Management and authorisation policies.

Sub-process	Objectives
Payroll	<ul style="list-style-type: none"> • Valid new starters are added to the payroll system accurately and on a timely basis. • Leavers are removed from the payroll system on a timely basis. • Expense claims are supported by relevant documentation and approved in line with Council procedures.
Fixed assets	<ul style="list-style-type: none"> • The recording of additions and disposals of fixed assets is complete and accurate. • Fixed asset additions are approved and are in accordance with the Council's strategy. • Depreciation charges are complete, accurate and in accordance with the Council's depreciation policy.
Budgetary control	<ul style="list-style-type: none"> • Budget monitoring is performed on a regular basis and action taken on variances.

Limitations of scope

The scope of our work will be limited to those areas outlined above and is dependent on sufficient data being available to us. Our review will be performed in the context of the information provided to us. Where circumstances change the review outputs may no longer be applicable.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the key financial systems through discussions with key personnel, review of systems documentation and walkthrough tests;
- Identify the key risks relating to financial systems;
- Evaluate the design of the controls in place to address the key risks; and
- Test the operating effectiveness of the key controls.
- We will also use data audit procedures to analyse data contained in the key financial systems, to support controls testing. We have identified specific tests through discussion with the Council based on anticipated data that can be extracted from the relevant systems.

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Financial Systems, 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; 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 shall 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.

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***Internal Audit
Report 2015/16***

Medium Term Financial Strategy

Ref no A.2

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Distribution List

For action	Ashley Wilson (Interim Head of Finance)
	Ilyas Bham (Accountancy Manager)
For information	Steve Atkinson (Chief Executive)
	Julie Kenny (Chief Officer, Corporate Governance and Housing Repairs)
	Sanjiv Kohli (Deputy Chief Executive, Corporate Direction)
	Bill Cullen (Deputy Chief Executive, Community Direction)

1. Executive summary

Report classification	Total number of findings					
	Critical	High	Medium	Low	Advisory	
 Low risk (1 point)	Control design	-	-	-	-	
	Operating effectiveness	-	-	-	1	1
	Total	-	-	-	1	1

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Headlines / summary of findings:

Hinckley and Bosworth Borough Council has recently finalised an updated medium term financial strategy (MTFS) setting out how a balanced budget will be achieved over the period 2016/17 to 2019/20, spanning the remainder of the current administration’s term of office.

The MTFS was presented in its final form to a full Council meeting on 18th February 2016. It contains an analysis of the macroeconomic, central government, and local environment, and sets out relevant assumptions and viewpoints clearly. The Council has a policy of maintaining the general fund at 10% of net expenditure. Central to achieving this is a £5 increase in average band D council tax, and the introduction of a £24 charge for collection of green waste.

We have reviewed the arrangements in place for collating information and preparing the MTFS. Although some key officers have been absent during the preparation of the MTFS, we are satisfied that the process was robust and involved sufficient input by senior officers and members.

The MTFS is underpinned by a number of key assumptions over funding, other income, growth pressures and efficiency savings. Each of these assumptions has varying degrees of inherent uncertainty. With so many assumptions being applied there is an ongoing risk that one of the influencing factors may vary significantly from the assumptions the Council has applied. We have reviewed the Council’s assumptions taking into account our wider understanding of the sector, and we have also compared them to other local district authorities, similar to HBBC where possible (see Appendix 1). Overall, in our view the assumptions are reasonable taking into account the point in time at which the MTFS was prepared.

		2016/17	2017/18	2018/19	2019/20
Non-pay inflation	HBBC	0.00%	0.00%	0.00%	0.00%

	Average	0.57%	0.80%	0.80%	0.80%
Pay inflation	HBBC	1.00%	1.00%	1.00%	1.00%
	Average	1.14%	1.20%	1.20%	1.25%
New Homes Bonus change	HBBC	47.38%	7.74%	-19.56%	-15.78%
	Average	34.16%	-0.22%	-20.93%	-6.57%
Change to net budget	HBBC	5.7%	0.5%	-5.8%	-3.3%
	Average	1.4%	0.7%	1.2%	1.5%

We identified one low risk finding; there was an error in a working paper in which a rental figure had not been updated for new information. Further information is presented in the detailed findings section, however we are satisfied that the impact on the MTFS is not significant.

We have also raised an advisory point regarding a lack of clarity in the narrative for explaining calculations for inflation. Whilst we are satisfied that inflation has been correctly applied, the narrative for the assumptions used could have been more clearly displayed.

2. Detailed current year findings

1. Quality of working papers – operating effectiveness

Finding

We have extracted key assumptions from the MTFS and reviewed the source documentation and calculations behind them.

We identified a very small error in a working paper, in which a rental figure was not updated for new information. This error does not have a significant impact on the MTFS and represents only a very small amount in the context of the overall plan (approximately £18k per year of the plan) but highlights that review of working papers should be strengthened.

Implications

Assumptions included within the MTFS may not be reported accurately therefore cannot be effectively challenged by members.

Figures within the MTFS may be inaccurate leading to inappropriate decision making.

Action plan

Finding rating


Low risk

Agreed action

Officers will be reminded of the need for a thorough review of calculations. The review of calculations undertaken by a separate officer will be documented (officer and date) on the individual working papers.

Responsible person / title

Ashley Wilson (Interim Head of Finance)

Target date:

31st December 2016

Reference number:

MTFS01

Clarity in defining MTFS assumptions – operating effectiveness

Finding

The main narrative to the MTFP states that a 1% inflationary increase will be applied to contracts unless the terms specify otherwise, and other supplies and services will not be inflated. Our initial review of the corresponding working paper identified that inflation of 1% was applied to contracts in 2016/17, but 2% was applied in the following three years. It has subsequently been identified that there is a separate narrative within the MTFS which states in addition to the specific inflation rate on contracts, general assumptions will be applied to all forecasts. This includes RPI of 1.1% for 2016/17 and 2% then after. We have reviewed the calculation and are satisfied that it has been calculated correctly however confusion has arisen from the separation of the narrative.

Recommendation

MTFS narrative will be reviewed by an impartial individual to check the clarity of the documentation.

General assumptions narrative should be stated first to avoid confusion.

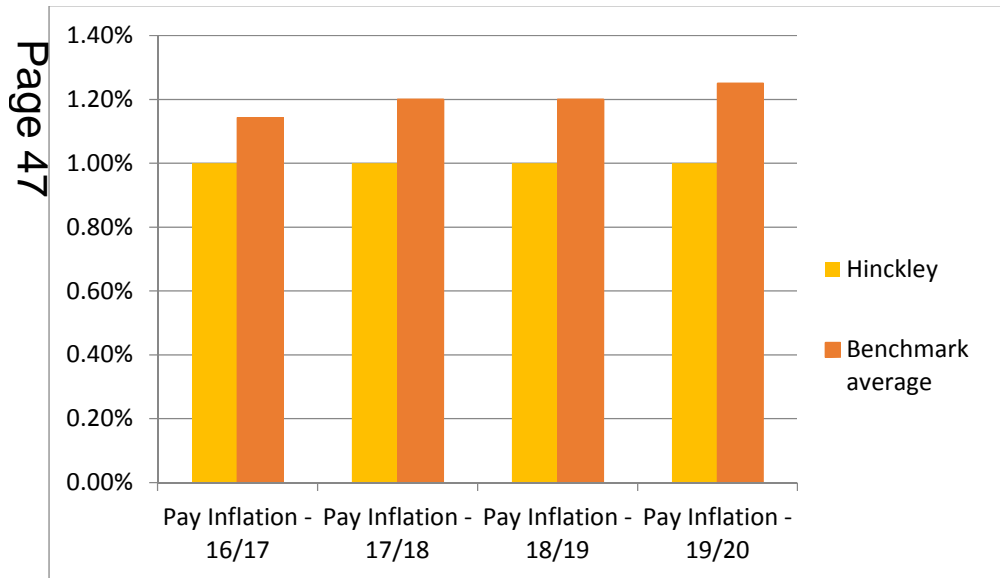
Appendix 1. Benchmarking of assumptions

We have reviewed the assumptions in your MTFS and where possible compared them to other local district authorities.

Inflation

You have assumed inflation of 0% on supplies and services for the MTFS period, as in previous years, unless specified within a contract. The same approach is taken by the majority of our benchmark group although some in the group have used an inflation rate of 2%. For contracts, you are anticipating inflationary costs of 1% for 2016/17 and 2% inflation thereafter. This is in line with current Treasury projections for CPI, the government's preferred measure of inflation.

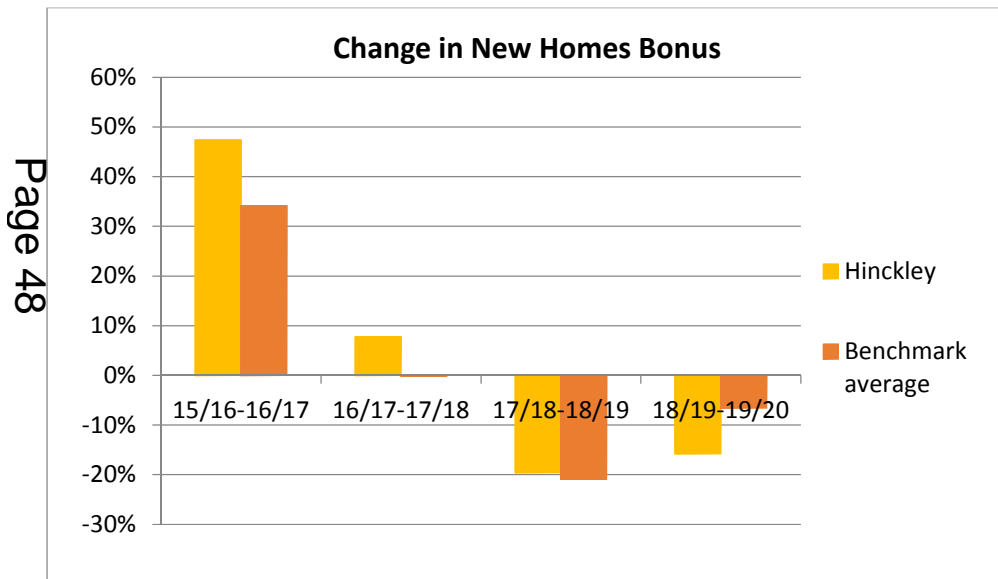
Together with the majority of the Local Authorities in our benchmark group, you have assumed pay inflation of 1% over the period in line with the recently agreed local government pay settlement for 2016/17 and 2017/18.



New Homes Bonus

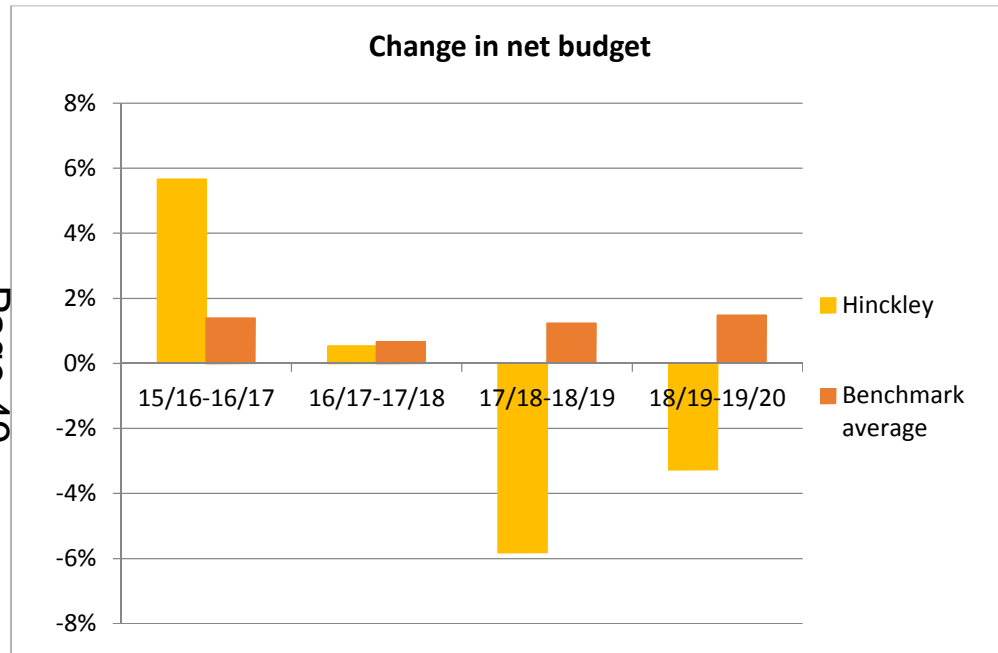
There is considerable uncertainty over New Homes Bonus. Under the current scheme for each new home built the government provides grant for six years based on council tax. Consultation is taking place on proposals to move from a six year payment term to a four year or even shorter payment term, and various options of phasing the change are being considered.

The changes you have modelled in your MTFs are based on the government's preferred option. You are forecasting a higher increase in income from New Homes Bonus in the years 2015/16 – 2017/18 of your plan than our comparator group, 2017/18 -2018/19 is broadly in line with our comparator group but this is offset by a sharper forecast decline in 2018/19-2019/20.



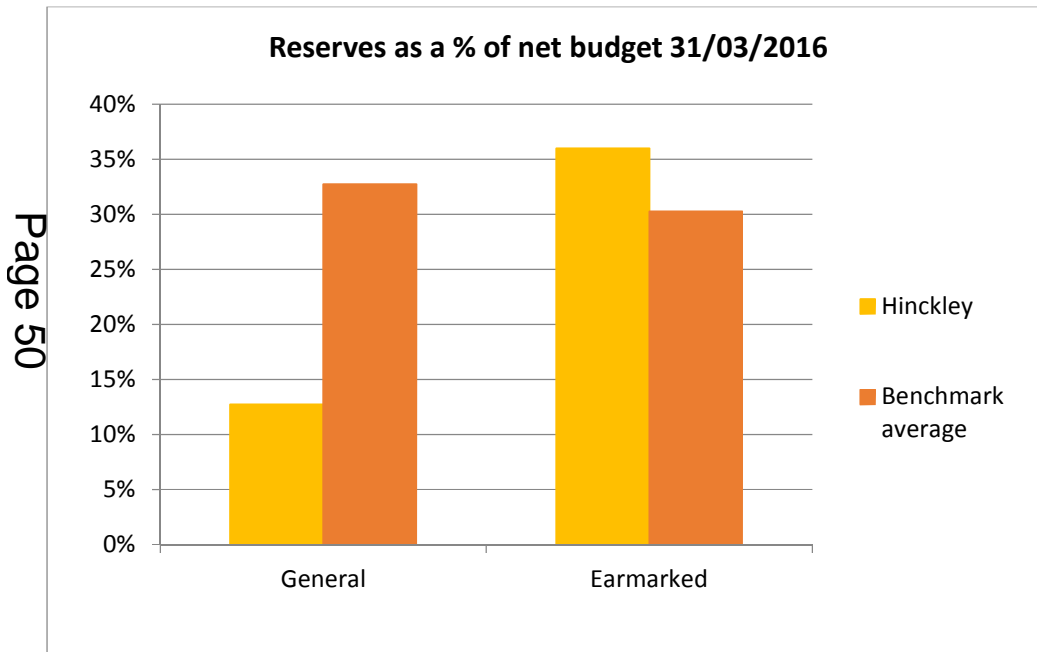
Efficiencies and additional income sources

In developing your MTFS you have considered additional income sources and efficiencies which could be made. Your net budget is increasing in 2016/17 by a higher level compared with our benchmark group, but this is offset by the greater savings planned and additional income you have identified in later years.

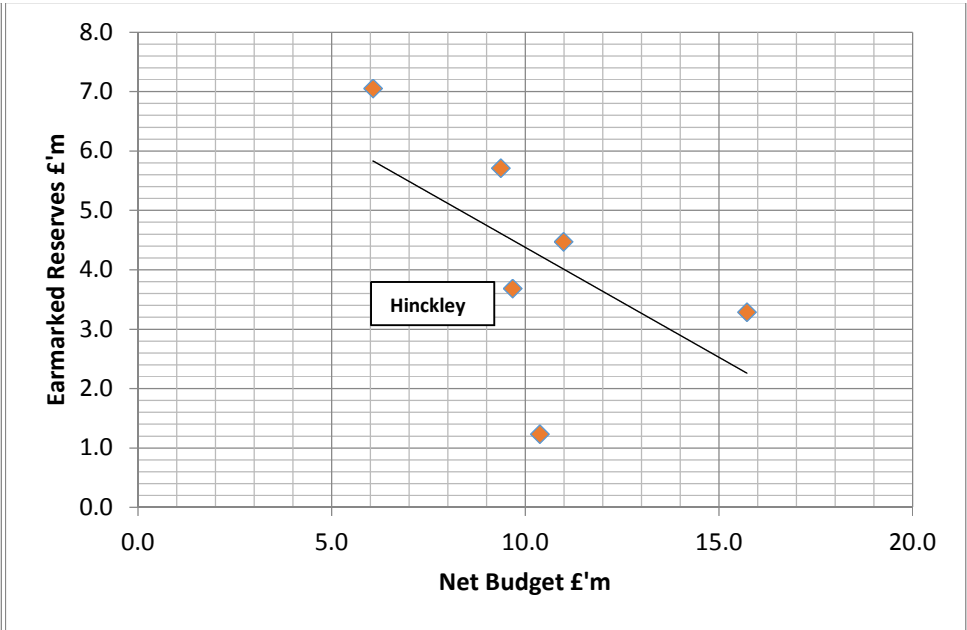
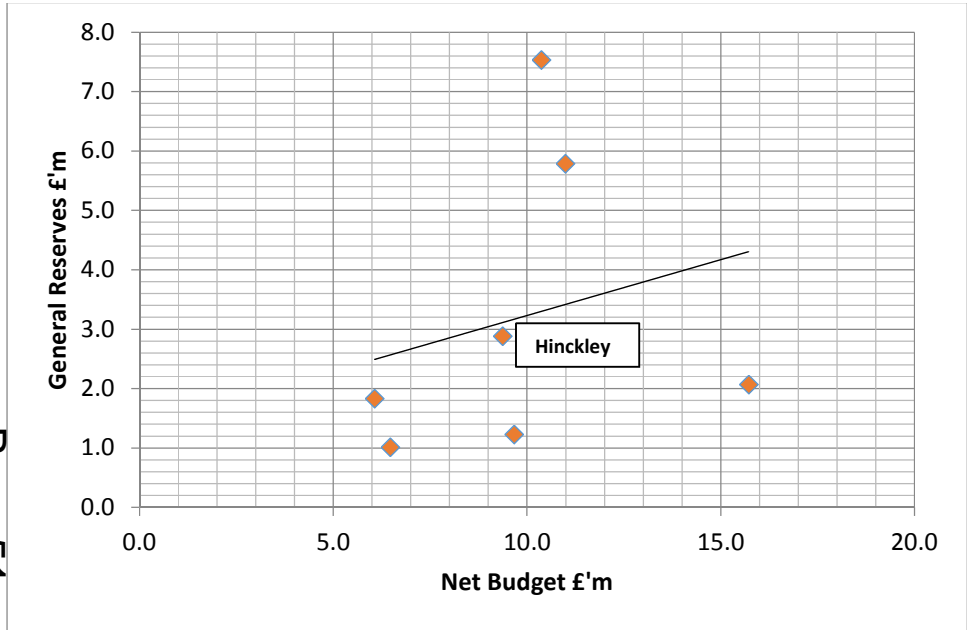


Reserves

Your forecast for the end of the 2015/16 financial year is to be holding £1.2 m of general fund reserves, which represents 12.7% of your net expenditure. You maintain a policy of holding a general reserve of 10% of net budget and this is forecast to be achieved throughout the period. The policies in our benchmark group of Local Authorities range from 5% of net expenditure to a target of no more than 30% of net expenditure. Your level of General Reserves remains relatively low when compared to others, but your policy is within our expectation for the level of general fund reserves which we would independently expect you to hold. In addition, you hold a higher level of earmarked reserves than the Local Authorities in our benchmark group which mitigates this difference to some degree.



The following graphs show the level of general reserves and earmarked reserves the authorities in our benchmark group held relative to their net budget:



Appendix 2. Basis of our classifications

Individual finding ratings





<i>Finding rating</i>	<i>Assessment rationale</i>
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation’s operational performance; 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	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

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Report classifications

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

<i>Findings rating</i>	<i>Points</i>
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

<i>Report classification</i>	<i>Points</i>
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

Appendix 3. Terms of Reference

Hinckley and Bosworth Borough Council Terms of reference – Medium Term Financial Strategy

**To: Ashley Wilson – Interim Head of Finance and Interim Head of Internal Audit,
Ilyas Bham – Accountancy Manager**
From: Chris Dickens, Internal Audit Senior Manager

This review is being undertaken as part of the 2015/16 internal audit plan approved in draft by the Finance, Audit and Performance Committee on 13th April 2015.

Background

Hinckley and Bosworth Borough Council's Medium Term Financial Strategy (MTFS) sets out the Council's financial position for the next four years covering the period from 2016/17 – 2019/20. The MTFS ensures that the Council's corporate targets are met by allocating resources effectively.

The MTFS is integral to the Council's financial planning since it forecasts how it will remain financially resilient as an organisation. The current MTFS applies the Council's policy of holding 10% of the net budget requirement in balances at the end of each financial year, and contains a number of efficiency savings to ensure that the Council does not place unreasonable pressure on local taxpayers.

Income and expenditure assumptions within the MTFS are based on the most likely scenario and with reference to assumptions made by other similar authorities.

The MTFS has undergone a series of reviews and iterations, and the final version will be presented to Council for approval on 18th February.

Scope

This review will cover the following scope. We will:

- Understand how the Council's Medium Term Financial Strategy is compiled, including the governance structure surrounding this
- Review the key assumptions included in the MTFS, comparing them with best practice and those used by other Local Authorities

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. Where circumstances change the review outputs may no longer be applicable.

Review approach

Our audit approach is as follows:

- Obtain an understanding of the compilation process for the Medium Term Financial Strategy, through discussions with key personnel and review of documentation;
- Identify the key risks in the process and evaluate the design and effectiveness of controls in place to address these risks;
- Understand the assumptions used in the MTFS; and
- Test the robustness of these assumptions through comparison with best practise and other Local Authorities.

Appendix 4. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the Medium Term Financial Strategy, 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; 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 shall 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.

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Internal Audit Risk Assessment and Plan 2016/17

DRAFT

**Hinckley and
Bosworth Borough
Council**

April 2016

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Distribution List

Members of the Finance, Audit and Performance Committee

This document has been prepared only for Hinckley and Bosworth Borough Council and solely for the purpose and on the terms agreed with the Council.

1. Introduction and approach

Introduction

This document sets out our risk assessment and internal audit plan for the Council.

Approach

The internal audit service is delivered in accordance with the Internal Audit Charter. A summary of the approach to undertaking the risk assessment and preparing the plan is set out below. The internal audit plan is driven by the Council's organisational objectives and priorities, and the risks that may prevent the Council from meeting those objectives. A more detailed description of the approach can be found in Appendices 1 and 2.

<i>Step 1</i> <i>Understand corporate objectives and risks</i>	<ul style="list-style-type: none">• Obtain information and utilise sector knowledge to identify corporate level objectives and risks.
<i>Step 2</i> <i>Define the audit universe</i>	<ul style="list-style-type: none">• Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.
<i>Step 3</i> <i>Assess the inherent risk</i>	<ul style="list-style-type: none">• Assess the inherent risk of each auditable unit based on impact and likelihood criteria.
<i>Step 4</i> <i>Assess the strength of the control environment</i>	<ul style="list-style-type: none">• Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.
<i>Step 5</i> <i>Calculate the audit requirement rating</i>	<ul style="list-style-type: none">• Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.
<i>Step 6</i> <i>Determine the audit plan</i>	<ul style="list-style-type: none">• Determine the timing and scope of audit work based on the organisation's risk appetite.
<i>Step 7</i> <i>Other considerations</i>	<ul style="list-style-type: none">• Consider additional audit requirements to those identified from the risk assessment process.

Basis of our plan

The level of agreed resources for the internal audit service for 1 April 2016 to 31 March 2017 is 130 days and £66,300; this is based on 115 days in line with 2015/16 plus 15 days not utilised in the previous year. The plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process. Accordingly, the level of internal audit activity represents a deployment of limited internal audit resources and in approving the risk assessment and internal audit plan, the Finance, Audit and Performance Committee recognises this limitation.

Basis of our annual internal audit conclusion

Internal audit work will be 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.

Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit. The agreed control objectives will be reported within our final individual internal audit reports.

In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do not believe that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion.

Other sources of assurance

In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources. Other sources of assurance for each auditable unit are noted in our Risk Assessment in section 3 of this document, and a summary is given below.

Some of the other sources of assurance for Hinckley and Bosworth Borough Council are as follows:

- external inspections; and
- external audit work.

We do not intend to place reliance upon these other sources of assurance.

Key contacts

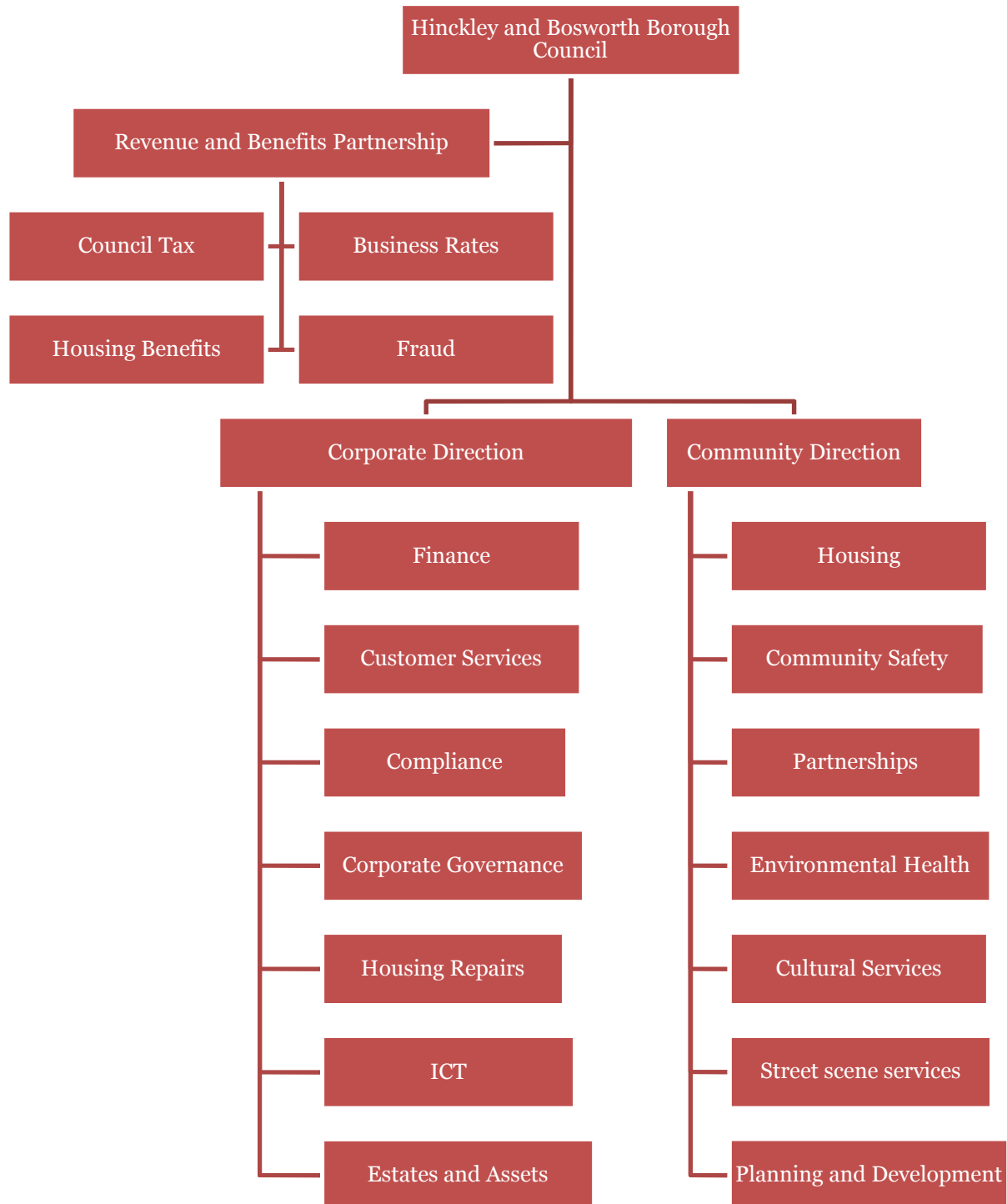
Meetings have been held with the following key personnel during the planning process:

- Steve Atkinson, Chief Executive
- Bill Cullen, Deputy Chief Executive
- Julie Kenny, Chief Officer
- Ashley Wilson, Interim Chief Officer Finance, Customer Services and Compliance
- Avtar Sohal, External Audit Manager

2. Audit universe, corporate objectives and risks

Audit universe

The diagram below represents the high level auditable units within the audit universe of Hinckley and Bosworth Council. These units form the basis of the detailed strategic risk assessment in section 3.



Corporate objectives and risks

Corporate level objectives and risks have been determined by Hinckley and Bosworth Borough Council. These are recorded in the table below and have been considered when preparing the internal audit plan

Corporate Aims	Risk(s) to achievement of objective	Cross reference to Internal Audit Plan (see Section 4)
A1 - Creating a vibrant place to live and work	S.01 – Failure to focus on priorities and initiatives	A.7, B
	S.06 – Failure to implement the Town Centre Plan	A.7, B.4
	S.11 – Failure to deliver the Medium Term Financial Strategy successfully	A.1, A.4
A2 - Empowering communities	S.12 – Insufficient Business Continuity Management (incl Disaster Recovery) arrangements	A.3, A.4
A3 - Supporting individuals	S.14 – Dealing with numerous Public Enquiries	NA
	S.15 – Failure to adopt and deliver the Local Development Scheme successfully	A.7, B.4
A4 - Providing value for money and pro-active services	S.22 – Failure of County Council Support/ Engagement for the Local Strategic Partnership	A.7, B.4
	S.25 – Failure to provide a fit for purpose Leisure Centre	A.7
	S.30 – Review by the Qualities Commission for Human Rights of disability issues	NA
	S.33 – MIRA and RGF Fund	A.1
	S.34 – Safeguarding of vulnerable adults, children and young people	NA
	S.37 – Non delivery of capital projects which are interdependent	A.7
	S.43 – Leicestershire County Council budget cuts	A.1, A.4
	S.45 – Council does not prevent or detect fraudulent activities	A.1, C.1, C.2
	S.46 – Construction of Hinckley Leisure Centre	A.7

3. Risk assessment

Risk assessment results

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. The results are summarised in the table below.

Ref	Auditable Unit	Corporate objectives and risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
A	Corporate Direction						
A.1	Finance	A4, S.01, S.11, S.12, S.33, S.43, S.45	6	4	4	●	Annual
A.2	Customer Service	A1-4, S.11,	4	4	2	●	Every three years
A.3	Compliance	A3, A4, S.12, S.14, S.30, S.45	6	5	4	●	Annual
A.4	Corporate Governance	A4, S.45, S.14	6	5	4	●	Annual
A.5	Housing Repairs	A1, A4, S.11	4	4	2	●	Every three years
A.6	ICT	A4, S.11, S.12	5	4	3	●	Every two years
A.7	Estates and Assets	A1-4, S.06, S.11, S.25, S.37, S.46	6	4	4	●	Annual
B	Community Direction						
B.1	Housing	A1, A2, S.11	6	4	4	●	Annual
B.2	Community Safety	A1, A2, S.11, S.34	5	4	3	●	Every two years
B.3	Partnerships	A4, S.11, S.22	5	3	4	●	Annual
B.4	Environmental Health	A1-4, S.11	5	4	3	●	Every two years
B.5	Cultural Services	A1, S.11	4	4	2	●	Every three years
B.6	Street Scene Services	A1, A4, S.06, S.11	4	4	2	●	Every three years
B.7	Planning and Development	A1, S.11, S.15	4	4	2	●	Every three years

C Revenues and Benefits Partnership							
C.1	Council Tax	A3, A4, S.11, S.34S.45	5	4	3	●	Every two years
C.2	Business Rates	A3, A4, S.11, S.45	5	4	3	●	Every two years
C.3	Housing Benefit	A3, A4, S.11, S.34 S.45	6	4	4	●	Annual
C.4	Fraud prevention and detection	A3, A4, S.11, S.45	4	4	2	●	Every three years

Key to frequency of audit work

Audit Requirement Rating	Frequency – standard approach	Colour Code
6 - 4	Annual	●
3	Every two years	●
2	Every three years	●
1	No further work	●

The audit requirement rating drives the frequency of internal audit work for each auditable unit. The recommended planning approach involves scheduling an annual audit when the rating ranges from 6 to 4, an audit every two years when the rating is 3 and an audit every three years when the rating is 2.

4. Annual plan and internal audit performance

Annual plan and indicative timeline

The following table sets out our internal audit work planned for 1 April 2016 to 31 March 2017, together with indicative number of audit days for each audit.

Ref	Auditable Unit	Indicative number of audit days*		Comments	Audit Sponsor
A	Corporate Direction				
A.1	Finance	15	Q3	Support HBBC with the refresh to the Corporate Plan and DCLG efficiency plan Review of key finance controls	Ashley Wilson
A.3	Compliance	10	Q2	Review the arrangements to protect against cyber threats, including 'phishing' emails which put personal data at risk	Ashley Wilson
A.4	Corporate Governance	15	Q2	Support HBBC in preparing for the LGA Corporate Peer Challenge Risk management review to consider current arrangements	Julie Kenny
A.6	ICT	12	Q4	Review of Information Technology General Controls and Processes in place across the ICT partnership arrangement	Paul Langham
A.7	Estates and Assets	16	Q3	Follow up review considering the Crescent Development and Leisure Centre capital schemes and development Support HBBC with the advancement of the Hinckley & Bosworth Development Company	Malcolm Evans
B	Community Direction				
B.1	Housing	6	Q4	Review rolled forward from 15/16 HRA Investment Plan – review compliance with the newly implemented Investment Plan	Sharon Stacey
B.2	Community Safety	6	Q3	Exact scope of work to be determined following a discussion with relevant management	Sharon Stacey
B.3	Partnerships	10	Q1	Review rolled forward from 15/16: Review of the overall governance arrangements and current practices to	Sharon Stacey

				support effective partnership arrangements within the ICT function	
B.4	Environmental Health	6	Q3	Exact scope of work to be determined following a discussion with relevant management	Rob Parkinson
C	Revenues and Benefits Partnership				
C.3	Housing Benefit	7	Q4	Exact scope of work to be determined following a discussion with relevant management	Sally O’Hanlon
C.4	Fraud prevention and detection	7	Q3	Exact scope of work to be determined following a discussion with relevant management	Sally O’Hanlon
D	Project Management				
D.1	Project management	8	Q1-Q4	Including liaison with external audit, attendance at Finance, Audit and Performance Committees and Management meetings	NA
D.2	Prior year recommendations follow up	7	Q1-Q4	Review and validation of actions taken to address all high and medium risk findings raised as part of the 2015/16 Internal Audit	
D.3	Contingency	5	Q1-Q4	To include ad hoc training	NA
	Total days	130			

** Where appropriate and in agreement with client management, we are able to flex our audit service to include more senior or specialist staff to respond to the risks generated by audit reviews. Where we do this we effectively agree a fixed fee for the audit work which is derived from the combined fees of the planned audit days allocated to this audit review during the annual planning process.*

Key performance indicators

Appendix 3 sets out the proposed Key Performance Indicators for internal audit. Performance against these indicators will be reported to the Finance, Audit and Performance Committee.

Appendix 1: Detailed methodology and risk assessment criteria

Methodology

Step 1 - Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your strategy, organisational structure and corporate risk register;
- Drawn on our knowledge of the local government sector; and
- Met with a number of senior management.

Step 2 - Define the Audit Universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for Hinckley & Bosworth Borough Council made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

Step 3 - Assess the inherent risk

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and its sector; and
- Discussions with management.

Impact Rating	Likelihood Rating					
	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

Step 4 - Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- The outcomes of previous internal audits.

Step 5 -Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control design indicator					
	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

Step 6 -Determine the audit plan

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

In some cases it may be possible to isolate the sub-process (es) within an auditable unit which are driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequency of audit work. These sub-processes driving the audit requirement areas are highlighted in the plan as key sub-process audits.

Step 7 -Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.

Appendix 2: Risk assessment criteria

Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

Impact rating	Assessment rationale
6	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.
5	Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation's operational performance; 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.
1	Insignificant impact on the organisation's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation.

Likelihood rating	Assessment rationale
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)

<i>Likelihood rating</i>	<i>Assessment rationale</i>
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

Appendix 3: Key performance indicators

Key performance indicators

To ensure your internal audit service is accountable to the Finance, Audit and Performance Committee and management, we have proposed the following key performance indicators.

<i>KPI</i>	<i>Target</i>	<i>Comments</i>
Infrastructure		
Audits budgeted v actual	+/- 10 plan days	We expect to deliver the annual plan with tolerance of 10 days with the agreement of management
Planning		
% of audits with Terms of Reference	100%	Terms of reference will be agreed with the Audit Sponsor before fieldwork commences
Fieldwork		
% of audits with an exit meeting	100%	Exit meetings will be held with the Audit Sponsor once fieldwork has been completed for all reviews undertaken
Reporting		
Draft reports issued promptly	100%	Draft reports will be issued within three weeks following fieldwork completion
Attendance at Audit Committee	100%	
Relationships		
Overall client satisfaction score	9/10	



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Internal Audit Charter

Hinckley & Bosworth
Borough Council

April 2016

Distribution List

Members of the Finance, Audit and Performance
Committee

About this charter

This Internal Audit Charter provides the framework for the conduct of the Internal Audit function at Hinckley & Bosworth Borough Council and has been approved by the Finance, Audit and Performance Committee. It has been created with the objective of formally establishing the purpose, authority and responsibilities of the Internal Audit function.

Purpose

Internal Auditing is an independent, objective assurance and consulting activity designed to add value to and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Scope

All of Hinckley & Bosworth Borough Council's activities (including outsourced activities) and legal entities are within the scope of Internal Audit. Internal Audit determines what areas within its scope should be included within the annual audit plan by adopting an independent risk based approach. Internal Audit does not necessarily cover all potential scope areas every year. The audit program includes obtaining an understanding of the processes and systems under audit, evaluating their adequacy, and testing the operating effectiveness of key controls.

Internal Audit can also, where appropriate, undertake special investigations and consulting engagements at the request of the Finance, Audit and Performance Committee and regulators.

Notwithstanding Internal Audit's responsibilities to be alert to indications of the existence of fraud and weaknesses in internal control which would permit fraud to occur, the Internal Audit activity will not undertake specific fraud-related work.

Internal Audit will coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Authority

The Internal Audit function of Hinckley & Bosworth Borough Council derives its authority from the Council through the Finance, Audit and Performance Committee. The Chief Audit Executive is authorised by the Audit Committee to have full and complete access to any of the organisation's records, properties and personnel. The Chief Audit Executive is also authorised to designate members of the audit staff to have such full and complete access in the discharging of their responsibilities, and may engage experts to perform certain engagements which will be communicated to management. Internal Audit will ensure confidentiality is maintained over all information and records obtained in the course of carrying out audit activities.

Responsibility

The Chief Audit Executive is responsible for preparing the annual audit plan in consultation with the Finance, Audit and Performance Committee and senior management, submitting the audit plan, internal audit budget, and resource plan for review and approval by the Finance, Audit and Performance Committee, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the Finance, Audit and Performance Committee and senior management.

The Chief Audit Executive is responsible for ensuring that the Internal Audit function has the skills and experience commensurate with the risks of the organisation. The Finance, Audit and Performance Committee should make appropriate inquiries of management and the Chief Audit Executive to determine whether there are any inappropriate scope or resource limitations.

It is the responsibility of management to identify, understand and manage risks effectively, including taking appropriate and timely action in response to audit findings. It is also management's responsibility to maintain a sound system of internal control and improvement of the same. The existence of an Internal Audit function, therefore, does not in any way relieve them of this responsibility.

Management is responsible for fraud prevention and detection. As Internal Audit performs its work programs, it will be observant of manifestations of the existence of fraud and weaknesses in internal control which would permit fraud to occur or would impede its detection.

Independence

Internal Audit staff will remain independent of the business and they shall report to the Chief Audit Executive who, in turn, shall report functionally to the Finance, Audit and Performance Committee and administratively to the Section 151 officer.

Internal Audit staff shall have no direct operational responsibility or authority over any of the activities they review. Therefore, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which they would normally audit. Internal Audit staff with real or perceived conflicts of interest must inform the Chief Audit Executive, then the Finance, Audit and Performance Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

Professional competence and due care

The Internal Audit function will perform its duties with professional competence and due care. Internal Audit will adhere to the Definition of Internal Auditing, Code of Ethics and the Standards for the Professional Practice of Internal Auditing that are published by the Institute of Internal Auditors.

Internal Audit will also adhere to the requirements of the Public Sector Internal Audit Standards (PSIAS).

Reporting and monitoring

At the end of each audit, the Chief Audit Executive or designee will prepare a written report and distribute it as appropriate. Internal Audit will be responsible for appropriate follow-up of audit findings and recommendations. All significant findings will remain in an open issues file until cleared by the Chief Audit Executive or the Finance, Audit and Performance Committee.

The Finance, Audit and Performance Committee will be updated regularly on the work of Internal Audit through periodic and annual reports. The Chief Audit Executive shall prepare reports of audit activities with significant findings along with any relevant recommendations and provide periodic information on the status of the annual audit plan.

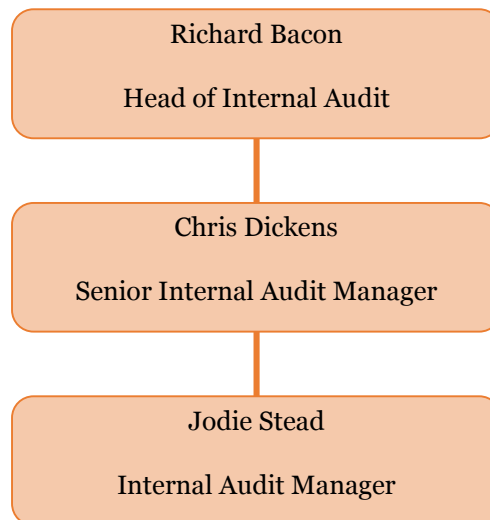
Periodically, the Chief Audit Executive may wish to meet privately to discuss internal audit matters and this can be arranged at the request of either the Chief Audit Executive or the Chair of the Finance, Audit and Performance Committee in private to discuss internal audit matters.

The performance of Internal Audit will be monitored through the implementation of a Quality Assurance and Improvement Programme, the results of which will be reported periodically to Senior Management and the Finance, Audit and Performance Committee.

Definitions

Board	The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation.
Audit Committee	The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At Hinckley and Bosworth BC this is currently the Finance, Audit and Performance Committee.
Senior Management	The individuals at the highest level of organisational management who have day-to-day responsibility for managing the organisation.
Chief Audit Executive	Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity. Following signing of the Internal Audit contract the role of Chief Audit Executive is performed by Richard Bacon, PwC.

Definitions



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The Annual Governance Statement

SCOPE OF RESPONSIBILITY

Hinckley and Bosworth Borough Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.”

In discharging this overall responsibility, the Council is responsible 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.

Hinckley and Bosworth Borough Council has approved and adopted a code of corporate governance (The Constitution) which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) /The Society of Local Authority Chief Executives and Senior Managers (SOLACE) Framework *Delivering Good Governance in Local Government: Framework*. One of the objectives of the Constitution is to “enable the Council to review its governance arrangements as required”. A full review of the Constitution took place in May 2016.

This Annual Governance Statement (the Statement) explains how the Council has complied with the Constitution and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations 2011. The Statement details the systems of corporate and operational governance as well as the procedures of internal control that are in place. This document relies on several assurance mechanisms including internal audit, the work of Council committees, risk and performance management processes and external audit

OVERALL SUMMARY

This is a positive Statement for the financial year 2015/2016. No significant control weaknesses have been identified in year. The Council continues to operate a robust governance framework which is designed in a way to address risk and operates effectively.

The governance framework outlined in this Statement has been in place at the Council for the year ended 31 March 2016.

THE PURPOSE OF THE SYSTEM OF CORPORATE GOVERNANCE

Corporate governance refers to the system by which an organisation is directed and controlled. The governance structure specifies the distribution of rights and responsibilities among stakeholders and specifies the rules and procedures for making decisions. Governance provides the structure through which organisations set and pursue their objectives, and reflects the mechanism for monitoring actions, policies and decisions and delivering appropriate, cost-effective services.

The systems of corporate governance are designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of corporate governance is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's objectives, to evaluate the likelihood and impact of these risks, and to manage them efficiently, effectively and economically.

THE PURPOSE OF THE INTERNAL CONTROL ENVIRONMENT

Internal control is a process for assuring achievement of an organisation's objectives through identifying and controlling risk. The Committee of Sponsoring Organisations (COSO) defines the framework of internal control as comprising of six components:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring¹

CIPFA GUIDANCE ON GOOD GOVERNANCE

CIPFA's "*Delivering Good Governance in Local Government: Guidance Note for English Authorities*" outlines the principles of good governance. The addendum to this paper published in December 2012 ² outlines these principles as:

- Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users
- Reviewing the authority's vision and its implications for the authority's governance arrangements
- Translating the vision into objectives for the authority and its partnerships
- Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources and value for money
- Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements
- Developing, communicating and embedding codes of conduct, defining the standards of behaviours for members and staff
- Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality
- Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability
- Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained
- Ensuring effective management of change and transformation
- Ensuring the authority's financial management arrangements confirm with the governance requirements of the *CIPFA Statement on the Role of the Chief*

¹ Internal Control — Integrated Framework (1992) COSO

² Delivering Good Governance in Local Government: Framework – Addendum (2012) CIPFA

Financial Officer in Local Government (2010) and, where they do not, explain why and how they deliver the same impact

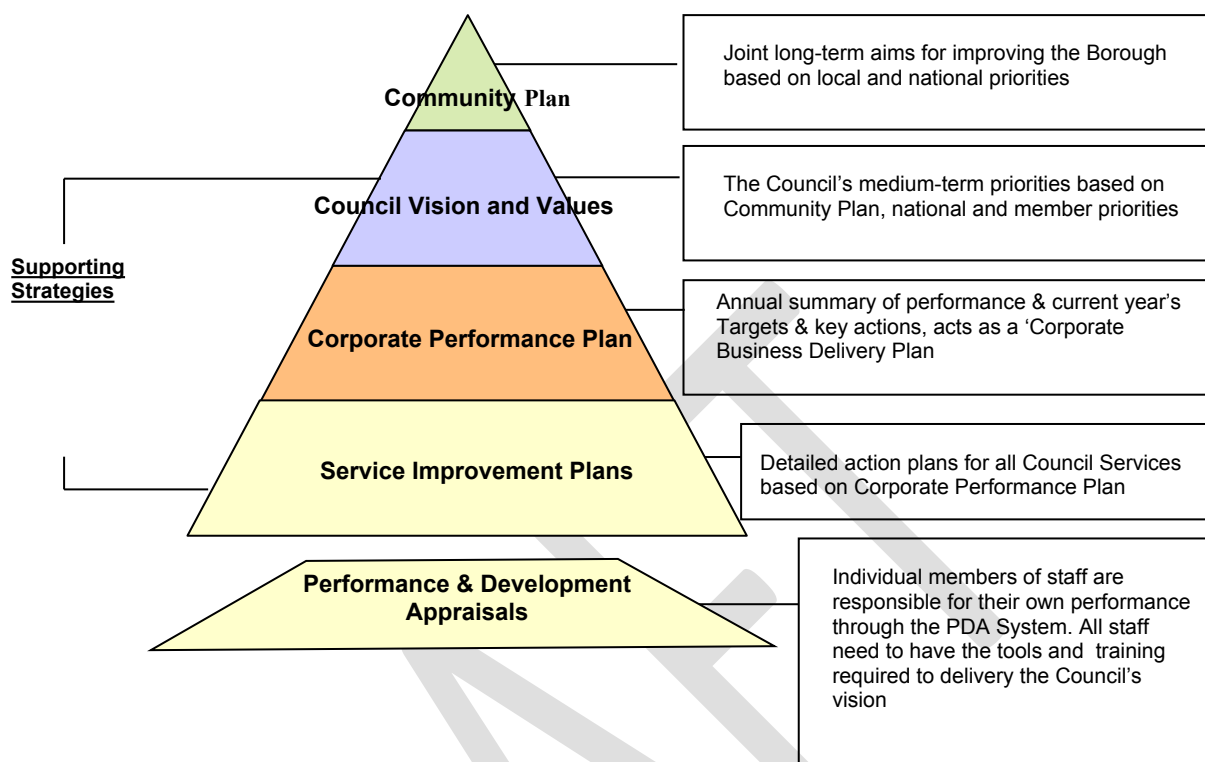
- Ensuring the authority's assurance arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit (2010)* and, where they do not, explain why and how they deliver the same impact
- Ensuring effective arrangements are in place for the discharge of the monitoring officer function
- Ensuring effective arrangements are in place for the discharge of the head of paid service function
- Undertaking the core functions of an audit committee as identified in CIPFA's *Audit Committees: Practical Guidance for Local Authorities*
- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful
- Whistleblowing and for receiving and investigating complaints from the public
- Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training
- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation
- Enhancing the accountability for service delivery and effectiveness of other public service providers
- Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements

HINCKLEY AND BOSWORTH BOROUGH COUNCIL

The key elements of the Council's internal control environment and governance framework are outlined below.

- The Council's Corporate Plan developed for the period 2013-2016 sets out the long-term aims of the Council and drives the corporate Performance Plan and Medium Term Financial Strategy. The Corporate Plan provides residents, members and staff with a clear vision to make Hinckley and Bosworth a 'Borough to be Proud Of'. The plan outlines four corporate aims and six corporate values which guide all decisions made by the Council and help to focus priorities. The Corporate Plan is due to be refreshed in 2016/2017 and consultation has commenced to inform this process.
- The Council uses plans and strategies at various levels to plan and monitor the achievement of its aims and objectives. This system is demonstrated by the Corporate Planning Framework which is represented by the diagram below. The objectives set out within the Corporate Plan are used to set targets for each department in their Service Improvement Plans (SIPs). Plans are refreshed annually and progress against targets is managed through the TEN performance management system on a monthly basis. Performance reports are produced quarterly and reported to the Joint Management Boards and Finance Audit and Performance Committee. All officers are required to reflect their departmental SIPs in individual personal development plans and are assessed against these annually.

Hinckley & Bosworth Borough Council – Corporate Planning Framework



- The Council's financial strategy, aims and objectives are outlined in the Medium Term Financial Strategy (MTFS). The MTFS outlines ten financial objectives which the Council looks to achieve whilst managing current financial risks. Alongside this, the Council has in place a Housing Revenue Account (HRA) Business Plan which sets out how the organisation will finance and deliver affordable housing over the next thirty years. From a capital perspective, the Capital Programme covers expenditure and financing plans for the Council over a period of three financial years. Finally a Treasury Management Strategy is approved annually by Council and details the organisation's approach to borrowing and investing.
- The system of internal financial control reflects the budgetary control framework which is based on the following principals:
 - Preparation of comprehensive annual budgets, reserves review and a Medium Term Financial Strategy to examine the financial health of the Council
 - Robust financial regulations and authorisation limits to ensure accountable financial decisions
 - Allocation of financial resource to ensure that each budget holder meets with a dedicated accountant on a monthly basis
 - Production of monthly reporting packs which are discussed by Strategic Leadership Board and the Corporate Operations Board
 - Preparation of regular financial reports for members which outline actual expenditure against budget and forecast spend for the remainder of the financial year
 - Use of a comprehensive financial ledger and reporting tool which produces disaggregated financial reports at various levels (e.g. fund, cost centre, expenditure type) to ensure that stakeholders receive information to inform

decisions. The Council has invested in a budget monitoring model within the financial ledger to allow for self service and interrogation of financial data by users

- Inclusion of financial implications in all committee reports
- Representation from finance in the governance structure of all corporate projects

The Council's financial and budgetary control system is reviewed each year by Internal Audit and in 2015/16 received a confirmation that there were no issues that needed to be reported in the Annual Governance Statement, with no high level risks reported. The areas reviewed that this judgement was based on included following:

- The Authority prepares a Medium Term Financial Strategy (MTFS) and approves a budget accordingly, which is based on a robust process and reasonable assumption based on the time drafted.
 - No issues being found in relation to budgetary control.
 - No high level risk issues being identified in relation to
 - General ledger;
 - Income and debtors;
 - Expenditure and creditors;
 - Bank, cash and treasury management;
 - Fixed assets; and
 - Payroll.
- As a key element of internal control, the Internal Audit function operates in accordance with the CIPFA *Code of Practice and Statement on the Role of the Head of Internal Audit*. Internal Audit reviews are performed as set out in the annual Audit Plan which reflects the Council's strategic risk register. Internal Audit review each scoped area against a set of system controls agreed with management at the start of the visit and within the overall framework of system control objectives. The findings of Internal Audit, and updates on recommendation implementation are reported to, and scrutinised by the Finance, Audit and Performance Committee. This Committee undertakes the core functions of an Audit Committee as set out in CIPFA's *Audit Committees – Practical Guidance for Local Authorities and Police 2013 Edition*. Dedicated training was provided to this Committee in May 2015 to outline the content of this guidance and to review the effectiveness of the Committee as "those charged with governance". Please note that at the time of producing the Statement, the governance arrangements were under review.
- The Corporate Planning Framework is underpinned by a number of strategies which outline how the support services of the Council will reinforce and sustain front line provision. These include:
- Asset Management Strategy (including the acquisition and disposals strategies)
 - Budget Strategy
 - People Strategy
 - ICT Strategy and Web Strategy
 - Medium Term Financial Strategy
 - Health and Safety Policy
 - Risk Management Strategy
 - Procurement Strategy
 - Communication and Consultation Strategy
 - Data Quality Policy

- Corporate Debt Recovery Policy
- The Council's strategic documents outline how specific services will be provided to the Borough in the medium to long term. These strategies include the Children and Young People Safeguarding Policy, Cultural and Sport Strategy , Health & Wellbeing Strategy, Economic Regeneration Strategy, Green Infrastructure Strategy, Local Development Scheme , Climate Change Strategy, Environmental Health Enforcement Policy, Food Safety and Health and Safety Delivery Plan, Homelessness Strategy and the Equality Policy.
- Council policies are produced in accordance with the Constitution and are recommended for approval following review by senior management. Decision-making that falls within the policy and budgetary framework rests with the Council's Executive, whilst those falling outside the framework are referred to full Council. The "call-in" procedure enables the Scrutiny Commission to review decisions made by Executive and Council (although the major focus of the overview and scrutiny function involvement is through policy development rather than policy review). Day to day decision-making is carried out by appropriate officers in accordance with the Scheme of Delegated Powers and the Financial Procedure Rules. These arrangements all contribute to the economic, efficient and effective operation of the Council.
- The standards of behaviour expected from members and officers are set out in member/officer codes of conduct. A register of members' interests is maintained. All members and senior officers are required to complete 'related party' declarations at the end of the financial year in support of the statutory financial statements. Members' allowances are published and reviewed annually by Council. The Ethical Governance and Personnel Committee oversees the performance of members, senior officers and the Council's committees.
- The Financial Procedure Rules, Contract Procedure Rules, Whistleblowing Policy and Corporate Anti-Fraud Policy set out the rules and standards within which Council business is conducted and provide the mechanisms for dealing with any potential fraud and corruption. The Corporate Anti-Fraud Policy was reviewed by the Council's External Auditors in 2013/2014 and has been updated to reflect the outcomes of an officer risk assessment and The Audit Commissions' publication "Protecting the Public Purse" (2013). A corporate fraud log is centrally maintained and all cases have been reported (in private session) to the Finance, Audit and Performance Committee every six months. With regards to Whistleblowing, an independent survey was conducted by the internal audit during 2014/2015 and informed subsequent training that was provided to officers on this topic.
- The Constitution (Article 10) includes provisions for the governance of partnerships involving the Council. A separate constitution or terms of reference is in place for all partnerships which outlines their respective roles and responsibilities. Quarterly dashboards are produced to plot how partnerships are helping the Council achieve its strategic objectives. Significant partnerships involving the Council include:

Partnership	Purpose	Partners involved
Think Family Partnership	<ul style="list-style-type: none"> ▪ Oversee delivery of Supporting Leicestershire Families (SLF) programme. ▪ Improve outcomes for Children and Young People. ▪ Oversee delivery of Sure Start programme. 	CYPS; Adult Services; Libraries; Youth Services; Police; Probation; Voluntary and Community Sector (VCS); Parents/carers; Health Services; Education and Hinckley and Bosworth Borough Council (HBBC)
Health and Wellbeing Partnership	Deliver the Health and Wellbeing Strategy	Clinical Commission Groups (CCG's); GP's; VCS; Public Health; HBBC; Local Sport & Health Alliance.
Hinckley and Bosworth & Blaby Community Safety Partnership	To oversee and deliver the Community Safety Strategy.	Police; Probation; Leicestershire County Council (LCC); Blaby District Council; HBBC; Health; VCS; Fire.
Endeavour Tactical Group	To ensure emerging risk and threat is addressed in a timely manner. To co-ordinate campaigns and projects.	HBBC services, Police, Trading Standards, Fire Service, County Community Safety, Youth Service.
Housing Services Partnership	Developing integrated housing services.	Districts, Adult Services, Children's Services, Registered Provider's, County Community Safety, Citizen Advice Bureau (CAB)
Housing Offer for Health Project Board	To ensure development and delivery of Housing's offer for health.	District Councils, Adult Services, CCG's, First contact, Papworth Trust.
Cross Border Employment and Skills Partnership	To co-ordinate the delivery of cross border local economic and employment initiatives in accordance with LEP priorities.	HBBC; Nuneaton and Bedworth Borough Council; North Warwickshire Borough Council; North Warwickshire and Hinckley College; Recruitment agencies;; key local employers.
Hinckley & Bosworth Voluntary and Community Sector (VCS) Forum and Commissioning Board	<ul style="list-style-type: none"> ▪ To oversee and lead the establishment, development and sustainability of front line VCS service delivery organisations, and brokering of effective joint working between VCS and the 	Lead Partners: HBBC; Next Generation and Community Action Hinckley & Bosworth; plus 30 key/leading VCS organisations within the locality.

Partnership	Purpose	Partners involved
	<p>public sector.</p> <ul style="list-style-type: none"> ▪ To oversee and develop VCS commissioning, via VCS Commissioning Board. 	
Hinckley Town Centre Partnership	To deliver the Hinckley Town Centre Business Improvement District (BID).	HBBC; LCC; Local retailers; Police.
Leicestershire Waste Partnership	<ul style="list-style-type: none"> ▪ To reduce CO2. ▪ To reduce waste going to landfill by increasing recycling rates and residual weight reduction. ▪ Keep neighbourhoods clean. ▪ Co-ordinating waste and street cleaning services across county. 	All Districts, LCC
Hinckley & Bosworth Tourism Partnership	To deliver blueprint for action to promote visitor numbers and spend in the Borough.	HBBC; Leicestershire Promotions; LCC; Concordia Theatre; Hinckley Museum; Local accommodation providers; Twycross Zoo; Mallory Park.
Multi Agency Gold Incident Command (MAGIC)	Emergency planning	All relevant responders

- The Council ensures compliance with established policies, procedures, laws and regulations through various channels. Two statutory officers (Section 151 Officer and the Monitoring Officer) and the Head of Paid Services have responsibility for ensuring that the Council does not act in an *ultra vires* manner. Management are supported by the internal audit service, which facilitates the management and mitigation of risk and provides assurance on matters of internal control. The Human Resources (HR) function, through the use of workforce development reviews, assess and provide a means of improving competencies to ensure that officers are equipped to discharge their duties in accordance with the requirements of the Council. All officers are required to complete annual appraisals. The Council's financial management arrangements conform with the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)*.
- The Communication and Consultation Strategy 2013-2016 outlines how the Council will engage with local people and stakeholders through means such as the Disabled Person's Forum, Parish Council Forum, Together for Tenants, Youth for You, Older Peoples Forum, Developer Forum and Registered Social Landlord Forum. This strategy is due to be refreshed during 2016/17.

- A number of public consultations have taken place in 2015/2016 on pertinent issues including neighbourhood development, open spaces and Public Space Protection Orders. The Council communicates to residents through the Borough Bulletin which is circulated to all residents each quarter. Regular staff communication is achieved through Chief Executives' briefing notes and staff feedback sessions.
- The Council's dedication to quality of service is embedded through relevant strategies and also in the Council's Customer Service Charter. The Council collates customer satisfaction results for face to face, telephone and website interaction.
- The Council regularly measures performance through a suite of performance indicators managed on the TEN Performance Management system. All indicators are mapped to corporate priorities and are embedded within individual Service Improvement Plans. Each month performance is entered by managers before the database is locked to maintain accuracy in reporting. Progress reports are presented to Strategic Leadership Board, Scrutiny Commission, Finance Audit and Performance Committee and the Executive. The reports provide the following information for each of these indicators:
 - Performance for current year
 - The target set for current year
 - Performance in the previous year
 - Targets for the next three years
 - An explanation of performance and the targets set
 - Data Quality Checks
- The Council actively looks for opportunities to benchmark performance against other Councils. Locally the Council is a member of the East Midlands Performance Benchmarking Group and going forward has subscribed to ten CIPFA benchmarking clubs to assess the performance of support services.
- All information produced by the Council is subject to data quality procedures. The Council's Data Quality Policy outlines how standards of data quality are maintained by the Council and respective responsibilities. Through implementation of this Policy, the Council is compliant with all relevant legislation including the Data Protection Act and Freedom of Information.
- The Council is committed to continuous improvement. This was proved by the fact that in 2008/09 the Council sought a Comprehensive Performance Assessment (CPA) re-assessment and was re-categorised as an "excellent" Authority. This was a recognition of all the work that had been undertaken since 2004 to implement and embed the improvement actions identified in the 2004 inspection.
- The Council's performance management regime is supported by risk management processes. The Risk Management Strategy outlines how best practice risk management processes are embedded into the Council's operations. Operational risk registers are maintained on the TEN system and all managers are required to assess the impact and likelihood of risks as well as mitigating controls and action plans to reduce their severity. Quarterly reports on the risk position are taken to Finance, Audit and Performance Committee and Executive. Risk registers are also in place for significant projects, examples being the Leisure Centre and Crescent.

REVIEW OF EFFECTIVENESS 2015/2016

The Council has responsibility for conducting at least annually a review of the effectiveness of the system of internal control annually. The review of effectiveness is informed by the work of the Chief Officers within the authority who have responsibility for the development and maintenance of the governance environment, and their service assurance returns, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Internal Audit

Internal audit is provided in accordance with the statutory responsibility under s151 of the Local Government Act 1972, the Accounts and Audit Regulations 2011 and to the professional standards of the CIPFA Code of Practice for Internal Audit in Local Government.

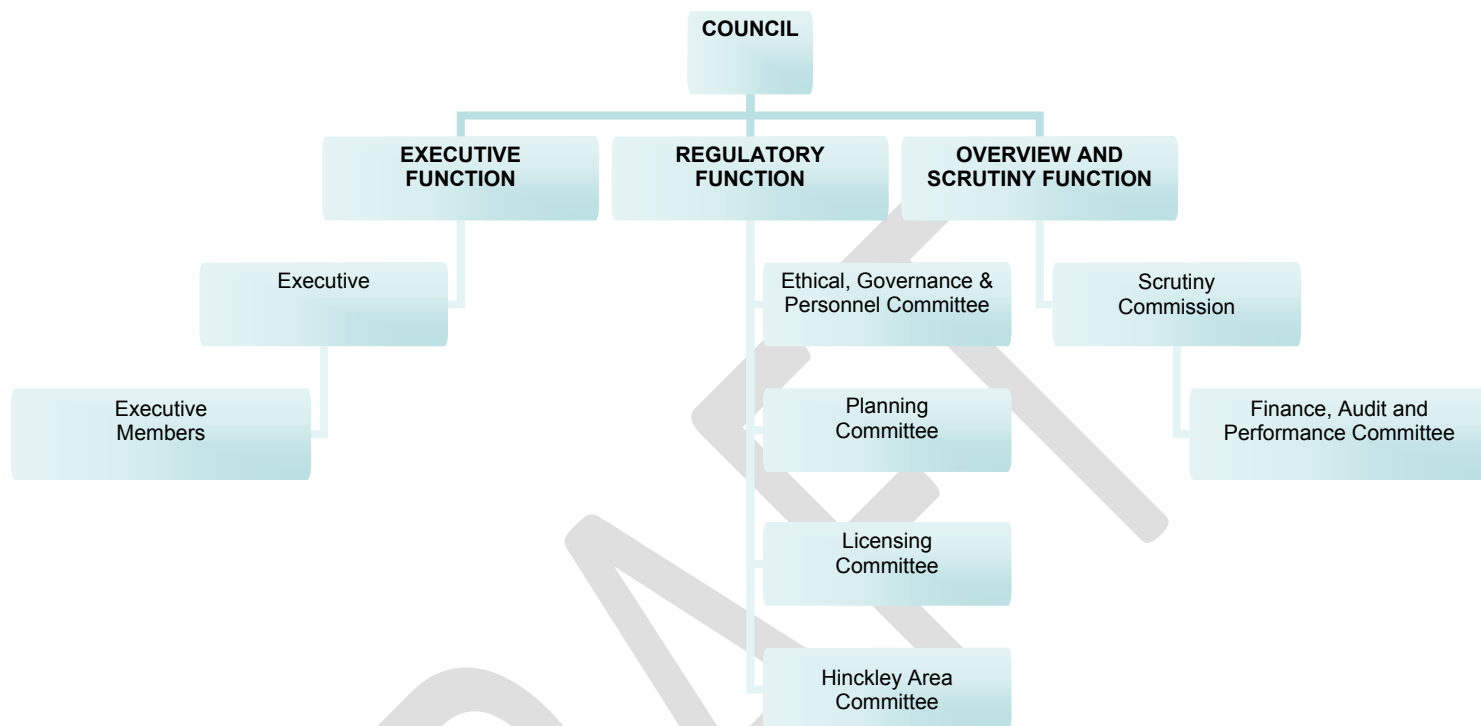
The Council's internal audit service has been outsourced to Price Waterhouse Coopers (PWC) for 2015/2016. Internal audit delivers its work in accordance with best practice and complies with the requirements of the Government Internal Audit Standards, CIPFA Code and other relevant Consultative Committee of Accountancy Bodies (CCAB) standards. PWC report through the Section 151 Officer as the responsible financial officer for the Council. The Section 151 Officer then submits reports to the Finance, Audit and Performance Committee, which in turn derives its terms of reference from the Scrutiny Commission. Audit recommendations are followed up in a timely manner based upon the priority of the recommendation through the use of the recommendation tracking software.

PWC acting as Chief Internal Auditor and in accordance with the *CIPFA Statement on the Role of the Head of Internal Audit (2010)* provide an annual assurance opinion which comments on the adequacy and effectiveness of the system of internal control. In their 2015/16 Annual Audit Report, PWC have issued a "Generally satisfactory with some improvements required" rating for the Council's internal control and identified no significant control weaknesses that they considered needing to be included in this AGS.

The effectiveness of the internal financial controls are also reviewed annually by the external auditor whose Annual Audit Letter will be considered formally by the Audit Committee (under the revised Committee structure for 2016 onwards).

Council Structure

The diagram below sets out the Council's democratic decision making arrangements as at 31 March 2016.



The Constitution sets out the essential elements of the scrutiny processes that are administered by the Scrutiny Commission and the Finance, Audit and Performance Committee. It describes the functions and membership of the Commission and Committee and Scrutiny Procedure Rules. Decisions of the Executive are subject to scrutiny by the Scrutiny Commission and the Finance, Audit and Performance Committee. The Scrutiny arm also has a role in policy development. In addition, task groups are established to oversee ad-hoc projects. Examples of areas reviewed by the Scrutiny Commission in year include:

- Channel Shift
- Set up of a wholly owned development company
- Local health provision
- Insurance arrangements
- The MTFS
- Clean neighbourhoods
- Progress on capital schemes

The Scrutiny Commission publishes a work programme. In accordance with Executive arrangements regulations (meetings and access to information) all key and private decisions which are due to be taken by the Executive are published on the Council website with a 28 day notice period.

Chapter 7 of the Localism Act 2011 outlined that there is no longer a statutory requirement to have a Standards Committee, however each Council has to put in place arrangements dealing with complaints and standards issues. The Council

adopted an individual Code of Conduct in 2012/13 and formed an Ethical Governance and Personnel Committee which merged the remits of the previous Standards & Personnel Committees and covers conduct and complaints.

Officers

Each year all service areas are required to conduct a self-assessment of the adequacy of controls in place to manage principal business risks. This statement evaluates the effectiveness of procedures, systems and controls, highlights areas for improvement and actions intended to address these. Action plans are incorporated in the service planning process.

SIGNIFICANT INTERNAL CONTROL ISSUES

The review of effectiveness has been considered in order to identify any significant control weaknesses that should be addressed by the Council. In addition an update should be provided on any issues identified in the previous Statement.

2015/2016 Significant Control Weaknesses

No significant control weaknesses have been identified for reporting in 2015/2016. This has been confirmed by the Council's Internal Auditors in their year end opinion.

2014/2015 Significant Control Weaknesses

No significant control weaknesses were identified for reporting in 2013/2014.

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Steve Atkinson MA(Oxon) MBA FioD FRSA
Chief Executive

Date.....

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Mike Hall
Leader of the Council

Date