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Bill Cullen MBA (ISM), BA(Hons) MRTPI
Chief Executive

Date: **14 November 2018**

Hinckley & Bosworth Borough Council

To: **Members of the Audit Committee**

Mr RB Roberts (Chairman)
Mrs R Camamile (Vice-Chairman)
Mr DS Cope
Mrs L Hodgkins
Mr MR Lay
Mr KWP Lynch
Mr DW MacDonald
Mr BE Sutton
Miss DM Taylor
Mr HG Williams
Ms AV Wright

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 **THURSDAY, 22 NOVEMBER 2018** at **6.30 pm** and your attendance is required.

The agenda for the meeting is set out overleaf.

Yours sincerely

Rebecca Owen
Democratic Services Officer

AUDIT COMMITTEE - 22 NOVEMBER 2018

A G E N D A

1. APOLOGIES AND SUBSTITUTIONS

2. MINUTES OF PREVIOUS MEETING (Pages 1 - 2)

   To confirm the minutes of the previous meeting.

3. 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)

4. 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.**

5. QUESTIONS

   To hear any questions received in accordance with Council Procedure Rule 12.

6. HOUSING BENEFIT ASSURANCE PROCESS 2018/19 (Pages 3 - 4)

   Letter from the external auditor attached, for members' approval.

7. INTERNAL AUDIT PLAN (Pages 5 - 18)

   Report of internal audit for approval.

8. INTERNAL AUDIT REPORT: RISK MANAGEMENT (Pages 19 - 38)

   Report of internal audit.

9. INTERNAL AUDIT REPORT: FINANCIAL SYSTEMS QUARTER 2 (Pages 39 - 52)

   Report of internal audit.

10. INTERNAL AUDIT RECOMMENDATION UPDATE (Pages 53 - 58)

    To update members on action taken in relation to outstanding recommendations raised by the previous internal audit provider following a request at a previous meeting.

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

    As announced under item 3 above.

HINCKLEY AND BOSWORTH BOROUGH COUNCIL

AUDIT COMMITTEE

26 JULY 2018 AT 6.30 PM

PRESENT: Mr RB Roberts - Chairman

Mr DS Cope, Mrs L Hodgkins, Mr MR Lay, Mr KWP Lynch, Mr BE Sutton, Miss DM Taylor and Mr HG Williams

Officers in attendance: Ilyas Bham, Rebecca Owen and Ashley Wilson

Representatives of Grant Thornton (Internal Audit) and Ernst & Young (External Audit) were in attendance.

118 APOLOGIES AND SUBSTITUTIONS

Apologies for absence were submitted on behalf of Councillor MacDonald.

119 MINUTES OF PREVIOUS MEETING

It was moved by Councillor Lay, seconded by Councillor Hodgkins and

RESOLVED – the minutes of the meeting held on 7 June 2018 be confirmed and signed by the Chairman.

120 DECLARATIONS OF INTEREST

No interests were declared at this stage.

121 INTERNAL AUDIT PLAN

The committee received the annual internal audit plan and three year strategy. A member requested a review of deliverability of affordable homes and of whether the authority was sufficiently robust in relation to viability. In response, the auditor suggested that he discuss the matter for inclusion in year two.

RESOLVED – the audit plan be approved.

122 AUDIT RESULTS REPORT

The external auditor presented the audit results report and indicated that he expected to issue an unqualified audit opinion on the financial statements.

RESOLVED – the report be approved.

123 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT 2017/18

Members received the audited financial statements and annual governance statement for 2017/18. In response to a question from a member, assurance was given that provision had been made in the MTFS for financial pressures resulting from leaving the European Union, reduction in government funding and potential changes to new homes bonus and business rates retention.

RESOLVED – the financial statements and annual governance statement be approved.

124 MANAGEMENT'S LETTER OF REPRESENTATION

The committee received management's letter of representation which confirmed the information provided, including financial statements, as a true record.

RESOLVED – management's letter of representation be endorsed and the financial statements be adopted for 2017/18 and published as the final audited version.

125 UPDATE ON OUTSTANDING RECOMMENDATIONS- VERBAL REPORT

Members received a verbal update on outstanding audit recommendations. It was noted that, of the 44 outstanding recommendations currently in place, 18 recommendations had been closed, 25 were open, of which ten indicated some work had been undertaken, and 15 were still showing that no action had been taken. All were being distributed to managers for follow up. It was reported that the majority of those outstanding were low risk and some may no longer be relevant. The new internal auditors, Grant Thornton, would continue to follow up outstanding recommendations as needed. It was noted that managers would be given some training in dealing with audit recommendations from agreement to response, which would hopefully prevent unnecessary delay when being followed up in future.

Members asked for a report on all recommendations and progress made to be brought to the next meeting. It moved by Councillor Lynch and seconded by Councillor Roberts that those managers with outstanding recommendations be asked to attend the next meeting.

RESOLVED – a full report be brought to the next meeting and managers with outstanding recommendations be asked to attend.

126 AUDIT REPORT: FOOD HYGIENE

The internal audit report on food hygiene was presented to the committee.

RESOLVED – the report be noted.

(The Meeting closed at 7.10 pm)

CHAIRMAN

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Ashley Wilson
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10 September 2018

Ref:
Your ref:

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Dear Ashley

Housing Benefit Assurance Process (HBAP) 2018/19

Thank you for asking us to provide an indicative quotation to undertake DWP's Housing Benefit Assurance Process at Hinckley and Bosworth Borough Council.

Your indicative fees for housing benefits over the past few years have been as follows:

Year	PSAA Indicative Fee	Scale Fee Variation	Final Fee
2015/16	£14,850	0	£14,850
2016/17	£14,498	£tbc *	£tbc*
2017/18	£14,850	£tbc**	£tbc**

*There was a Scale Fee Variation of £tbc for the 2016/17 audit as two lots of additional 40+ testing was carried out on:

(1) Cell 102 (Cases with Tax Credits)
(2) Cell 103 (Cases with Earnings)

** Fees cannot be fully confirmed for 2017/18 as the 2017/18 HB audit has yet to be completed as we have had to carry out three lots of 40 plus testing:

(3) Cell 102 (Cases with Tax Credits)
(4) Cell 103 (Cases with Earnings)
(5) Cell 103 (Cases with non-dependant deductions)

The indicative fees set by PSAA are based on the level of testing undertaken two years previously (e.g. 2015/16 was based on 2013/14). The fee is then finalised at the completion of the work, taking into account any differences between the assumed and final level of work undertaken.

We are providing a quote based on the following assumptions:

- That the nature of the work specified by DWP's HBAP is significantly unchanged from the current certification programme set by PSAA.
- Working papers and audit trails from the Benefits system will be provided, that fully support the completed claim form MPF720A.

- Responses to questions arising will be answered promptly, in accordance with agreed timescales.
- The form and supporting records will be of a standard where additional certification procedures or 40+ testing is not required.
- The form presented for certification will be correctly compiled and will be no requirement for post certification correction.

On this basis will charge a fee of £13,613, including out of pocket expenses, for the 2018/19 Housing Benefit Assurance Process.

If any of the assumptions above are not met we will discuss and agree with the Council the impact on the work required and the need for any additional fees.

If you have any questions or wish for further information, then please do not hesitate to contact me or Justine Thorpe.

Yours sincerely

Steve Clark
Partner

Ernst & Young LLP
United Kingdom

Grant Thornton

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Strategic Internal Audit Plan 2018-21
Annual Internal Audit Plan 2018-19

Hinckley and Bosworth Borough Council

August 2018 – Final

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Contents

Introduction

Overview of Internal Audit

Public Sector Internal Audit Standards (PSIAS) require the Chief Audit Executive (Head of Internal Audit) to produce a risk based plan which takes into account Hinckley and Bosworth Borough Council's risk management framework, its strategic priorities and objectives and the views of its senior management and the Audit Committee.

Our strategic internal audit plan (2018 to 2021) and annual internal audit plan for the financial year ended 31 March 2019 sets out our planned work which will be undertaken in accordance with Public Sector Internal Audit Standards (PSIAS).

Our Strategic and Annual Plans are designed to provide sufficient coverage over Hinckley and Bosworth Borough Council's risk, governance and control environment (including financial controls) so that we can provide an annual internal audit opinion. The Strategic and Annual Plans set out in this document have been developed through:

- Review of Hinckley and Bosworth Borough Council's Corporate Plan and associated corporate objectives and priorities;
- Review of the Corporate Risk Register;
- Review of the Authority's 2018-19 budget;
- Review of previous years internal audit plans;
- Review of minutes and papers to identify any planned changes to the control environment or emerging risks; and
- Discussions with the Senior Management Team.

We will also consider feedback from the Audit Committee before we finalise the plan.

Introduction

A risk based approach to internal audit planning

We used your risk register as a basis for identifying and prioritising internal audit work in this indicative plan. If appointed, we will consider the robustness of your risk management framework and associated culture and use this to update the proposed plan. We will take into account your overall appetite and tolerance for risk when prioritising our planned activity.

You are operating in a constrained financial environment and will have an agreed budget for internal audit and so we have used judgement to prioritise activities. Clearly these will be revisited following discussions with senior management and the audit committee. We have ensured sufficient coverage over risk, governance, and control and therefore can confirm we will be able to produce an annual internal audit report and opinion (limited to the work we have completed).

Your control environment

Internal audit is not itself part of the internal control system, nor is it responsible for internal control or compliance. This remains the responsibility of management. Our work as internal audit typically includes:

- Reviewing the risk management and internal control processes developed and maintained by management to ensure the achievement of agreed organisational or departmental goals
- Assessing data quality of management information and key performance indicators
- Assessing compliance with policies and procedures, including where relevant laws and regulations and strategic plans
- Considering the robustness and reasonableness of arrangements to ensure effective and efficient use of resources.
- Sharing good practice in governance, risk management and internal controls.

Internal Audit is only one source of assurance available to you. The delivery of our internal audit plans will not, and does not, seek to cover all the risks and controls in place across the organisation. We will liaise with external audit, and other assurance providers to ensure that duplication is minimised. We do not place reliance on other sources of assurance available to you when forming our annual opinion.

Strategic internal audit plan 2018 - 2021

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

- People- helping people to stay healthy, active and protected from harm
- Places - creating clean and attractive places to live and work
- Prosperity - encouraging growth, attracting businesses, improving skills and supporting regeneration

Below are the high level auditable areas within Hinckley and Bosworth Borough Council. These areas form the basis of the internal audit plan. Our plans are flexible and we would anticipate this plan will change year on year to take account of new or changed risks and priorities. Our plans reflect 130 internal audit days input per annum.

Auditable area	Corporate risk(s)	Risk assessment	Proposed internal audit coverage		
Corporate Services			**2018/19**	**2019/20**	**2020/21**
Compliance	S.14, S.30, S.44	Once every 2 years	Yes	-	Yes
Corporate risk	S.01, S.04, S.12, S.13, S.16, S.22, S.42	Annual	Yes	-	Yes
Legal services	S.14	Once every 3 years	-	-	Yes
HR & transformation	S.19, S.44	Once every 3 years	-	Yes	
ICT	S12	Once every 2 years	Yes	-	Yes
Finance	S.01, S.11, S.20, S.21, S.43	Annual	Yes	Yes	Yes
Estates and Assets	S.01, S.37, S.48	Once every 3 years	Yes	-	-

Strategic internal audit plan 2018 - 2021

Auditable area	Corporate risk(s)	Risk assessment	Proposed internal audit coverage		
Community Services			**2018/19**	**2019/20**	**2020/21**
Community safety / anti-social behaviour	S.01, S.34	Once every 3 years	-	-	Yes
Housing repairs	S.01, S.36	Annual	Yes	Yes	Yes
Cultural services and heritage	S.01	Once every 3 years	-	-	Yes
Housing options / homelessness	S.01, S40	Once every 3 years	-	Yes	-
Private sector housing	S.01, S.40	Once every 3 years	Yes	-	-
Housing assets / HRA business plan	S.01, S.40	Once every 3 years	Yes	-	-
Strategic and community planning	S.01, S.06	Once every 3 years	-	-	Yes
Sports, health promotion, wellbeing, and recreation	S.01	Once every 3 years	-	-	Yes
Children and young people	S.01, S.34	Once every 3 years	-	-	Yes
Safeguarding	S.01,S34	Once every 3 years	-	Yes	-
Environment and Planning					
Crematorium	S.01, S.14	Once every 2 years	Yes	-	Yes
Environmental Health	S.01, S.14	Once every 2 years	-	-	Yes
Planning and development control	S.01, S14, S15	Once every 2 years		Yes	-
Building control	S.01	Once every 3 years	-	-	Yes

Strategic internal audit plan 2018 - 2021

Auditable area	Corporate risk(s)	Risk assessment	Proposed internal audit coverage		
Environment and Planning *(continued)*			**2018/19**	**2019/20**	**2020/21**
Waste management/ recycling	S.01, S.47	Once every 3 years	-	Yes	-
Economic development / regeneration	S.01, S37, S11	Once every 3 years	-	Yes	-
Revenues and Benefits Partnership					
Council Tax	S.43, S.45	Once every 2 years		Yes	
Business Rates	S41, S45	Once every 2 years	-	Yes	-
Housing Benefit	S17, S45	Annual	Yes	Yes	Yes
Fraud prevention and detection	S.45	Once every 3 years		Yes	

Proposed internal audit plan for 2018/19

The proposed 2018/19 internal audit plan is summarised below. The specific objectives; associated risks; our scope and approach to each review; and timing will be agreed with the relevant audit sponsor.

Internal Audit area	Indicative Scope	Planned days	Indicative timing	Project Sponsor
Corporate Services				
Compliance	Potential audit risks to be discussed with the audit sponsor include: ▪ Management of the electoral register	8	Q2	Julie Kenny
Corporate risk	We will review the design and operational effectiveness of the Council's risk management arrangements.	10	Q2	Julie Kenny
ICT	Potential audit risks to be discussed with the audit sponsor include: ▪ Compliance with General Data Protection Regulations	12	Q2	Julie Kenny
Finance	We will review the design and operational effectiveness of the Council's key financial controls in the following areas: ▪ General ledger & journals ▪ Accounts receivable ▪ Accounts payable ▪ Payroll ▪ Cash & banking ▪ Capital accounting ▪ Budgetary control ▪ Treasury management	20 (to reflect year 1)	Each quarter	Ashley Wilson

Proposed internal audit plan for 2018/19

The proposed 2018/19 internal audit plan is summarised below. The specific objectives; associated risks; our scope and approach to each review; and timing will be agreed with the relevant audit sponsor.

Internal Audit area	Indicative Scope	Planned days	Indicative timing	Project Sponsor
Corporate Services (continued)				
Estates and Assets	Potential audit risks to be discussed with the audit sponsor include: ▪ Asset management / Capital Investment Opportunities ▪ Controls around asset disposals	10	-Q4	Malcolm Evans
Community Services				
Housing	Potential audit risks to be discussed with the audit sponsor include: ▪ HRA Business Plan	11	Q3	Sharon Stacey
Housing repairs	Potential audit risks to be discussed with the audit sponsor include: ▪ Provision of an appropriate housing repairs & maintenance service in accordance with Council and regulatory standards	8	Q4	Mark Tuff
Private sector housing	Specific scope to be agreed with the sponsor (lightbulb)	8	Q4	Sharon Stacey
Environment and Planning				
Crematorium	Potential audit risks to be discussed with the audit sponsor include: ▪ Review of business planning arrangements for the crematorium	8	Q3	Julie Kenny

Proposed internal audit plan for 2018/19

The proposed 2018/19 internal audit plan is summarised below. The specific objectives; associated risks; our scope and approach to each review; and timing will be agreed with the relevant audit sponsor.

Internal Audit area	Indicative Scope	Planned days	Indicative timing	Project Sponsor
Revenues and Benefits Partnership				
Housing Benefit	Potential audit risks to be discussed with the audit sponsor include: ▪ Revenues and benefit partnership	12	Q4	Sally O'Hanlon

Proposed internal audit plan for 2018/19

Internal Audit area	Indicative Scope	Planned days	Indicative timing
Contract management			
Follow up of outstanding recommendations	Follow up of high & medium risk internal audit recommendations	5	Throughout the year
Contract management and administration	Attendance at regular meetings with senior management to discuss progress against the plan, audit findings and to share knowledge and insight of good practice.	3	Throughout the year
Attendance at Audit Committee meetings	Attendance at all Audit Committee meetings to present Internal Audit papers and share knowledge and insight of good practice from our wider client base.	2	Throughout the year
Annual risk assessment & planning	Annual risk assessment process, which culminates in the production of the annual audit plan. This process includes updating our knowledge of the Council and meeting with the Senior Management Team.	3	Q4 for year ahead
Contingency	We have included a provision for additional reviews to provide in-year flexibility to provide assurance over any urgent risks/requests arising during the year.	10	As required

Audit resources

Staff grade mix

We have selected the following grade mix to deliver your 2018/19 annual internal audit plan.

Grade	No. of days
Head of Internal Audit	8
Manager	18
Executive	30
Auditor	52
Specialists	22
Total	**130**

Our core audit team and our subject matter experts bring:

- Experience in internal auditing in the public sector;
- Knowledge of the local government sector and good practice from your peers who are tackling similar challenges to you;
- Data analytics capabilities to provide greater insights into your internal controls;
- Ability to provide objective and independent advice across a wide range of specialist areas including IT;

All of the staff used to deliver the annual plan will be fully or part-qualified professionals in their respective areas. This means that you can be confident that our staff have the requisite skills and the experience to deliver high quality audits.

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Hinckley and Bosworth Borough Authority

Risk Management Internal Audit

November 2018

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Report distribution:

For action:

- Section 151 Officer
- Consultation and Improvement Officer

Responsible Executives:

- Director (Corporate Services)

Executive Summary

Background

An audit of the risk management processes was undertaken as part of the approved internal audit plan for 2018/19.

The Authority has a duty to provide a wide range of services that are delivered to the community as part of their ongoing objectives; the delivery of which includes an inherent number of risks. The Authority recognises it has a duty to manage these risks in a structured way to ensure delivery of its objectives whilst also providing value for money.

The Authority have a Risk Management Policy statement in place which was last updated in March 2017. This overarching policy includes sections on the Authority's objectives, how they identify and assess risks and documents the need to identify any mitigating actions. Risks are assessed using a standard scoring matrix where both the gross risk level is decided, then a final net risk score is decided after consideration of any mitigating actions which could minimise the impact or the likelihood of the risk arising.

Once risks have been assessed, they are recorded on the TEN performance management system, which enables them to be monitored by the Consultation and Improvement Officer.

In addition to this, the Authority have a 'Finance and Performance Scrutiny' meeting which takes place on a quarterly basis. These meetings provide a platform for escalation of any high rated risks to the board and also include discussion on whether risks have changed status. This means any changes can be quickly identified and monitored by the board.

Objectives

Our review considered the following process risks:

- Risks are not identified or assessed correctly;
- Risks registers are not reviewed or kept up-to-date, i.e. risk data is not timely, accurate and complete;
- Staff are unable to fulfil their role and responsibilities due to inadequate training;
- Mitigating actions are not completed or are ineffective;
- Risks are not escalated to the appropriate level.

Further details on responsibilities, approach and scope are included the Audit Planning Brief dated September 2018.

Limitations in scope

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

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

Executive Summary

Conclusion

Significant assurance with some improvement required

We have reviewed the Authority's risk management processes and controls. The controls tested are set out in our Audit Planning Brief.

We have concluded that the processes provide **SIGNIFICANT ASSURANCE WITH SOME IMPROVEMENT REQUIRED** to the Authority. There are some weaknesses in the controls designed to mitigate the risk management process risks examined during this audit.

Good practice

1. The Authority have a 'Finance and Performance Scrutiny' meeting which takes place on a quarterly basis. These meetings provide a platform for escalation of any high rated risks to the board and also include discussion on whether risks have changed status.
2. The Authority have a standard scoring matrix in place which is included within the Risk Management policy. This means a consistent approach is taken to the initial assessment of risks and thereafter means that any risks which require escalation can be quickly identified and reported.

Areas for development

We have not identified any significant issues (i.e. high or medium rated recommendations) during our review.

Recommendations

We have raised two low recommendations and two improvement points to address the minor control weaknesses identified.

	High	Med	Low	Imp
Detailed findings	-	-	2	2

Acknowledgement

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

Action Plan

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

Issue	Findings and Recommendation	Action Plan
Not all medium or low risks are reviewed on a quarterly basis and mitigating actions do not have a due date included.	**Key findings** ▪ Risks rated as high risk are reviewed on a quarterly basis and the Consultation and Improvement Officer contacts these risk owners to encourage them to update the latest commentary. ▪ In addition to this, as from the last quarter (July 2018), it was confirmed by the Consultation and Improvement Officer that he has contacted every risk owner for medium or low risks too for an update on the risk status. ▪ We have viewed email correspondence that shows this practice is in place and that the Consultation and Improvement Officer contacts the relevant risk owners on a timely basis. ▪ From our sample of 11 risks chosen, 2 risks (both medium) had not been recently reviewed in line with the quarterly approach, and had update dates ranging from 18 October 2017 to 20 June 2018. ▪ Therefore in some cases, risks that are rated as medium or low are not being reviewed on a timely basis and as such the risk may no longer be relevant and mitigating actions may no longer be appropriate or timely. ▪ Per discussions with the Consultation and Improvement Officer, some users go into the system and update the text but do not update the 'last review' date, however in the case of the 2 risks not updated above, these had not been updated despite the reminders. ▪ In addition, mitigating actions do not have a 'due date' or 'target date' included which means it is hard to monitor whether actions are overdue or have already been implemented. **Recommendation** ▪ The Authority should ensure there is consistency across all areas to ensure risks of all levels are reviewed on at least a quarterly basis and that updates are included; even if to confirm no change. ▪ The Authority should also include 'due dates' on mitigating actions where relevant which will aid effective monitoring and allow any which are overdue to be quickly identified. ▪ We also recommend that any overdue risk reviews are escalated to an appropriate officer.	Actions: Accepted. Overdue risk reviews will be escalated to the relevant SLT member as appropriate. Responsible Officer: Julie Kenny Executive Lead: Due date: December 2018

Action Plan

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

Issue	Findings and Recommendation	Action Plan
Risks that have changed in rating are reported to the 'Finance and Performance Scrutiny' committee, however the reasons for the changes are not documented.	**Key findings** ▪ The Authority hold a 'Finance and Performance Scrutiny' committee meeting on a quarterly basis. ▪ We have obtained and reviewed the report presented at the 10th September 2018 'Finance and Performance Scrutiny' meeting which was based on the data from August 2018. ▪ The meeting notes how many risks have worsened or improved in rating and how many have been closed, however there is no detail as to why risk ratings have changed. ▪ This shows that there is a level of discussion around the risks, particularly the most significant, and shows that reporting takes place to note if any of the risks have changed ratings, however this could be expanded to include why risks have changed. **Recommendation** ▪ The Authority should include documentation of the reason why risks have changed rating so members have greater clarity on the risks facing them and the circumstances surrounding these.	Actions: Agreed. Officers will be asked to provide an explanation of the changes to any risk rating to be included on the quarterly report. Responsible Officer : Julie Kenny Executive Lead: Due date: December 2018

Action Plan

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

Issue	Findings and Recommendation	Action Plan
The Authority's risk appetite has not been clearly defined.	**Key findings** ▪ The Risk Management policy states the importance of determining a risk appetite, clearly explained as *"how much risk it is prepared to retain without taking any further mitigating action."* ▪ However despite this mention in the policy, the Authority do not have a risk appetite statement in place which clearly articulates to staff the amount of risk that the Authority is willing to take for the different categories of risk that they face. ▪ Without a clear and specific risk appetite in place, Authority staff may not have a clear understanding of where they can afford to take more risk or where action needs to be taken to reduce risks. ▪ A risk appetite statement should communicate to staff how much risk they can take on for the different categories of risk identified in their policy, for example reputational, financial and opportunity. ▪ This can then be used to provide further guidance to staff when assessing risks and developing appropriate mitigating actions. **Recommendations** ▪ It is recommended that the Authority implement a risk appetite statement or update its risk management policy to include further explanation of their risk appetite, including documenting how much risk they will accept for the different categories of risk. A good example of a risk appetite statement includes: – breadth – covers both financial and non-financial risks – depth – make it easier to relate the overall appetite to the day jobs of staff – language – staff understand and are able to articulate the Authority's risk appetite and how it applies to them – sponsorship – explains how senior officers embed risk appetite in decision making ▪ The Authority should also consider adding to their risk register what the strategy for each risk is, whether it is accept, transfer, avoid or reduce. This will link to the risk appetite and make it clearer for staff to understand the Authority's approach to each risk type.	Actions: We will consider including a statement of risk appetite when the Risk Management Policy is next refreshed. Responsible Officer: Julie Kenny Executive Lead: Due date: December 2019

Action Plan

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

Issue	Findings and Recommendation	Action Plan
There is a lack of mandatory risk management training in place for staff.	**Key findings** ▪ As per the Risk Management Framework, all Authority members and officers should have a level of understanding of the risk management approach and complete any training as appropriate. ▪ All middle managers are required to complete a 'Managing Risk' e-learning course on an one off basis. ▪ This e-learning course outlines the different types of risk and the importance of managing risks, enabling staff to work through scenarios to test their understanding. ▪ The successful completion of this e-learning course is a mandatory requirement for all middle managers, however the Authority do not deem it necessary for all staff to complete the training. **Recommendations** ▪ It is recommended that the Authority reconsider whether the e-learning course should be extended to a wider audience. ▪ The Authority should also consider the need for relevant staff undertake training once every two years to ensure that their understanding of the risk management approach remains up to date. ▪ It is also recommended that the completion is monitored to ensure relevant staff members are up to date with their training.	Actions: We feel that the training is currently targeted at the right audience with our middle managers and it would not be appropriate / proportionate to make it mandatory for all staff. We will however monitor completion of those required to do the training. Responsible Officer: Julie Kenny Executive Lead: Due date: August 2019 (for monitoring only)

Summary of Work

Process risk	Description
Risks are not identified or assessed correctly.	▪ The Authority have a Risk Management policy statement in place which was last updated in March 2017. This outlines their commitment to managing their business risks in a structured way to ensure delivery of its objectives whilst also providing value-for-money. ▪ This overarching policy includes sections on the Authority's objectives, how they identify and assess risks and documents the need to identify any mitigating actions. ▪ The policy states that there are a number of different types of risks that the Authority must consider in its process of identifying risks; for example financial loss, physical risks to staff and damage to the organisations reputation. ▪ The policy also includes a useful checklist of categories of risks which can be used as a prompt for staff to ensure they consider all areas and in turn helps to ensure completeness. The checklist includes categories of risk such as regulatory, economic, reputation and financial for consideration by staff. ▪ As per discussions with the Director of Corporate Services, risks are identified on an ad hoc basis whenever the Authority are proposing a new project or change in service delivery or as part of the annual planning process . These changes then feed into Service Improvement Plans and the relevant risks resulting from these can be identified and discussed at the same time. ▪ As per the Risk Management policy, risks are initially assessed on a gross risk level, which is a consideration of the risk on the assumption that there is no action being taken to mitigate this risk. Risks are assessed using a 3 x 3 matrix with a consideration of the likelihood of occurrence and the impact the risk could have in the event it were to occur. ▪ Both likelihood and impact are assessed on a scale of low to high (1-3), the highest score identified for each is then used to plot the risk level on the risk matrix documented in the policy. ▪ Secondly, risks are assessed on a net risk level, which considers the effectiveness of any existing mitigating actions in place which could minimise the likelihood of occurrence or the severity of the impact of it were to occur. As per the policy it is the risk owner's responsibility to ensure that the agreed risk level is an accurate reflection of the likelihood and impact after consideration of any mitigating actions in place. ▪ There is a standard scoring system in place at the Authority; any risks which score 1-3 are low risk and are seen as being managed effectively already. A score of 4-6 means a medium risk, which are usually accepted but may require some additional mitigating if this can be done cost effectively. Any which score 7-9 are significant and require immediate action to be taken to reduce the level of risk.

Summary of Work

Process risk	Description
Risks are not identified or assessed correctly.	▪ As at September 2018, the Authority has 105 risks across the registers they keep. The registers are separated into corporate risks which are kept on a different register per each risk owner. They also have a separate register for each service area, for example environmental health, finance and planning. ▪ These ratings for these risks are as follows: – 45 low – 45 medium – 13 high – 2 opportunities. ▪ We have selected a sample of 11 risks to test from across the different registers, 4 high risk, 4 medium risk and 3 low risk. ▪ Our review of these risks shows that all 11 risks have been correctly assigned a score in line with the standard matrix, a description of the mitigating actions in place has been included and each has an assigned owner who is then responsible for managing the risk and ensuring the documented risk and the actions to mitigate it remain current. ▪ The policy also states the importance of determining a risk appetite for the Authority, which is clearly explained in the policy as 'how much risk it is prepared to retain without taking any further mitigating action'. ▪ The policy states that it is important that the 'focus is on promotion of risk awareness, rather than risk avoidance. If the Authority's risk appetite is too low, there will be a tendency towards risk avoidance', which in turn can mean that opportunities are missed and resources are wasted focusing on risks that may not materialise or would have a low impact if they were to. ▪ Despite this, we would expect the Authority to have a separate risk appetite statement in place which clearly articulates to staff the amount of risk that the Authority is willing to take for the different categories of risk that they face, for example financial, reputational, legal, etc. ▪ Having a risk appetite framework in place will help the Authority have a clearer understanding of where they can afford to take more risk or where action needs to be taken to reduce risks.

Summary of Work

Process risk	Description
Risks registers are not reviewed or kept up-to-date, i.e. risk data is not timely, accurate and complete.	▪ We obtained and reviewed the risk registers as at September 2018. The registers are separated into corporate risks which are kept on a different register per each risk owner. They also have a separate register for each service line, for example environmental health, finance and planning. ▪ Our review of the registers confirmed that a consistent form of risk register is used across the organisation. ▪ Each register consists of a description of the risk, a description of any mitigating actions that are in place, the net risk score of 1-9, the latest review commentary, the date reviewed and the risk owner. ▪ The policy clearly identifies staff groups and their roles and responsibilities in respect of risk management, documenting the key individuals involved in managing the risk registers to be as follows: ▪ The Service Managers, alongside the appropriate risk owner, maintain the relevant service area risk register and are responsible for ensuring that all key risks are identified and managed appropriately. ▪ Project Managers are responsible for identifying, assessing and appropriately documenting significant risks. ▪ Lastly, the Consultation and Improvement Officer is in place to provide expertise, support and guidance on the risk management process, alongside preparing relevant reports as necessary whilst maintaining the Authority's risk management software, 'TEN'. ▪ Risks rated as high risk are reviewed on a quarterly basis and the Consultation and Improvement Officer contacts these risk owners to encourage them to update the latest commentary. ▪ In addition to this, as from the last quarter (July 2018), it was confirmed by the Consultation and Improvement Officer that he has contacted every risk owner for medium or high risks too for an update on the risk status. ▪ We have viewed email correspondence that shows this practice is in place and that the Consultation and Improvement Officer contacts the relevant risk owners on a timely basis. ▪ From our sample of 11 risks chosen, the 4 rated as high risk had all been reviewed and had an updated commentary in line with the quarterly review. ▪ From the remaining 7 risks chosen (4 medium and 3 low), 3 of these had been reviewed and updated in line with the quarterly approach. ▪ The remaining four had not been recently reviewed in line with the quarterly approach, and had update dates ranging from 18 October 2017 to 9 July 2018. ▪ Therefore in some cases, risks that are rated as medium or low are not being reviewed on a timely basis and as such the mitigating actions may no longer be appropriate or timely.

Summary of Work

Process risk	Description
Staff are unable to fulfil their role and responsibilities due to inadequate training.	▪ As per the Risk Management policy, all Authority members and officers should have a level of understanding of the risk management approach and complete any training as appropriate. ▪ Staff are required to complete a 'Managing Risk' e-learning course. The module outlines the different types of risk and the importance of managing risks, enabling staff to work through scenarios to test their understanding. ▪ As per discussions with the Director of Corporate Services, the completion of this e-learning course is a mandatory requirement for all middle managers, however it is not deemed necessary for all staff to complete the training. ▪ It is recommended that the Authority reconsider whether the e-learning course should be extended to be mandatory for a wider audience. It is also recommended that the completion is monitored to ensure relevant staff members are up to date with their training.
Mitigating actions are not completed or are ineffective.	▪ As per the Risk Management policy, risks are assessed on a net risk level, which considers the effectiveness of any existing mitigating actions in place which could minimise the likelihood of occurrence or the severity of the impact of it were to occur. ▪ As per the policy it is the risk owner's responsibility to ensure that the agreed risk level is an accurate reflection of the likelihood and impact after consideration of any mitigating actions in place. ▪ As at September 2018, the Authority has 105 risks across the registers they keep. Our review of these registers shows that each of the risks had a mitigating action and each has a responsible owner. ▪ We have reviewed the mitigating actions for each of the 11 risks we selected for our sample. The mitigating actions included against each risk are deemed to be appropriate in mitigating the risks, however each of these focuses on an ongoing risk faced by the Authority and as such, do not require a due date for the actions to be completed. ▪ From our sample of 11 risks chosen, the 4 rated as high risk had all been reviewed and had an updated commentary in line with the quarterly review and therefore the mitigating actions have been confirmed as the most appropriate to address the risk still. ▪ From the remaining 7 risks chosen (4 medium and 3 low), 5 of these had been reviewed and updated in line with the quarterly approach and therefore the mitigating actions have been confirmed as the most appropriate to address the risk still. ▪ The remaining 2 had not been recently reviewed in line with the quarterly approach, and had update dates ranging from 18 October 2017 to 20 June 2018. Therefore there is a possibility that the mitigating actions documented as in place may not be appropriate to address the risk.

Summary of Work

Process risk	Description
Mitigating actions are not completed or are ineffective.	▪ Per discussions with the Consultation and Improvement Officer, some users go into the system and update the text but do not update the 'last review' date, however in the case of the 2 risks not updated above, these had not been updated despite the reminders. ▪ It is recommended that the mitigating actions for each risk are reviewed and the risk updated on a quarterly basis to ensure these remain current and appropriate to address the risk, also confirming that these actions can be implemented in time should the risk arise. ▪ In addition, mitigating actions do not have a 'due date' or 'target date' included which means it is hard to monitor whether actions are overdue or have already been implemented. ▪ 'Due dates' should be included on mitigating actions where relevant which will aid effective monitoring and allow any which are overdue to be quickly identified.
Risks are not escalated to the appropriate level	▪ The Authority have a Risk Management policy statement in place which was last updated in March 2017. This sets out the framework for monitoring and management of risks; as per the policy, the most significant risks are discussed at corporate, directorate, middle managers and staff team meetings. ▪ The Authority also hold a 'Finance and Performance Scrutiny' committee meeting on a quarterly basis. ▪ We have obtained and reviewed the report presented at the 10th September 2018 'Finance and Performance Scrutiny' meeting which was based on the data from August 2018. ▪ The report shows that risks which pose the most significant threat (i.e. red risks) are noted and discussed within the meeting and therefore are escalated to the committee. ▪ As at August 2018, there were two risks on the corporate risk register rated as red, which had been correctly escalated in the meeting. In addition, there were 10 risks rated as the most significant on the individual service area registers which were correctly escalated in the meeting for discussion. ▪ The meeting also notes how many risks have worsened or improved in rating and how many have been closed, however there is no detail as to why risk ratings have changed. ▪ This shows that there is a level of discussion around the risks, particularly the most significant, and shows that reporting takes place to note if any of the risks have changed ratings, however this could be expanded to include why risks have changed. ▪ This in turn means that an understanding of the changing risks is brought to the board's attention in a timely manner and action to mitigate risks can quickly be taken if the status of any risk worsens.

Follow up of 2017/18 recommendations

The objectives of our audit work were as follows:

Recommendation reference	Description
Risk Management and Mitigating Actions Review	**2017/18 recommended action** ▪ Risk owners should be reminded that all risks should be reviewed on at least a quarterly basis to ensure that mitigating actions are appropriate. **2018/19 follow up on action** ▪ The Consultation and Improvement Officer contacts risk owners at the end of every quarter to encourage them to review their risks and provide an updated commentary on the status, therefore the recommendation is being implemented in that risk owners are reminded on a quarterly basis however there is still inconsistencies in how many risk owners respond to the reminder.
Corporate Performance Reporting	**2017/18 recommended action** ▪ SIP (Strategic Implementation Plans) owners should be reminded that all SIPs and the risks that relate to these should be reviewed on at least a quarterly basis to ensure that progress has been adequately captured and reported. **2018/19 follow up on action** ▪ The Consultation and Improvement Officer contacts risk owners at the end of every quarter to encourage them to review their risks and provide an updated commentary on the status, therefore the recommendation is being implemented in that risk owners are reminded on a quarterly basis however there is still inconsistencies in how many risk owners respond to the reminder.

Appendices

Appendix 1 – Staff involved and documents reviewed

Staff involved

- Consultation and Improvement Officer
- Director (Corporate Services)

Documents reviewed

- Risk Management Policy Statement (March 2017)
- Corporate risk registers (as at 14th September 2018)
- Service area risk registers (as at 14th September 2018)
- Finance & Performance Scrutiny report (10th September 2018)

Appendix 2 - Our assurance levels

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

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

Appendix 2 - Our assurance levels *(cont'd)*

The table below describes how we grade our audit recommendations.

Rating	Description	Possible features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	▪ Key activity or control not designed or operating effectively ▪ Potential for fraud identified ▪ Non-compliance with key procedures / standards ▪ Non-compliance with regulation
Medium	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	▪ Important activity or control not designed or operating effectively ▪ Impact is contained within the department and compensating controls would detect errors ▪ Possibility for fraud exists ▪ Control failures identified but not in key controls ▪ Non-compliance with procedures / standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	▪ Minor control design or operational weakness ▪ Minor non-compliance with procedures / standards
Improvement	Items requiring no action but which may be of interest to management or which represent best practice advice	▪ Information for management ▪ Control operating but not necessarily in accordance with best practice

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Hinckley and Bosworth Borough Council

Financial Systems Internal Audit report as at Quarter 2

8 November 2018

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Contents

Report distribution:

For action:

- Section 151 Officer
- Finance Staff

Responsible Executives:

- Director (Corporate Services)

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

Executive Summary

Background

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

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

To that end, we have designed and implemented a program of work designed to test performance of financial systems against the key risks identified and outlined within this report. Our approach is designed to test performance of financial systems across the full year. Further details of work performed against the risks identified is set out later in this report.

Objectives

Our work program considers the following key control objectives:

- **Legislation, Policies & Procedures:** staff are compliant with legislative and internal policy requirements. Policies ensure that core finance function is operated in an efficient and effective manner.
- **Financial Transactions & Record Keeping;** financial systems ensure reliability, integrity, confidentiality and security of financial information as follows;

➢ **Reconciliations;** key reconciliations are undertaken on a timely and efficient basis, with reconciling items investigated to ensure compliance with internal policies, accounting standards and legislation as required. This ensures the reliability and integrity of financial information.

➢ **System Access;** system access is secure, with an adequate procedure in place to ensure that this access is limited to appropriate individuals and regularly reviewed to ensure access is revoked and provided as required;

➢ **Management Information:** key financial data is complete, accurate, secure and produced on a timely basis to allow for effective monitoring of the Council's financial position and assist with effective decision making and compliance with legislation and internal policies.

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

Limitations in scope

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

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

Executive Summary

Conclusion

Significant assurance with some improvement required

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

We have concluded that the processes provide **SIGNIFICANT ASSURANCE WITH SOME IMPROVEMENT REQUIRED** to the Committee. One weakness was noted in the controls designed to mitigate management information process risks examined during this audit.

Good practice

1. Based upon our review of the Council's key reconciliations and related monitoring process, we are of the view that the Council have well designed, robust internal control procedures, which ensure timely production and review of information with a sufficient degree of segregation of duties.
2. Access to financial systems is closely monitored. Our testing indicated that appropriate training is provided to new users.
3. The Council regularly reviews and updates policies & procedures to ensure that they are up-to-date and continue to be fit for purpose.
4. Control account reconciliation tested were generally found to be well designed and achieved their aim of ensuring accurate transfer of information between systems. As at the report date, we have reviewed the Council's Council Tax, Creditors, Housing benefit, NDR, Council Tax refunds, Housing Rents, Payroll and BIDS reconciliations.

Areas for development

1. Protect source ledger data in budget monitoring reports to provide transparency and ensure a narrative explanation is added to all manual adjustments.
2. Review control account reconciliation timetable to ensure timely completion.
3. Review high number of super users in debtors module and consider review of overall privacy group structure.
4. Implement a periodic review of system access rights of finance staff.

Recommendations

As we have concluded that the processes provide significant assurance with some improvement required, we have raised only low level recommendations or improvement points to address the weaknesses identified..

	High	Med	Low	Imp
Detailed findings	-	-	4	3

Acknowledgement

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

Key Findings & Recommendations

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

Risk Area	Findings and Recommendation	Action Plan
Legislation, Policies & Procedures Staff are compliant with legislative and internal policy requirements. Policies ensure that core finance function is operated in an efficient and effective manner.	**Key findings** ▪ As at the report date, we have reviewed the Council's Contract Procedure Rules and Financial Procedure Rules. ▪ We are satisfied that the policies and procedures reviewed to date are in line with expectations and best practice, and we have no significant findings to note. ▪ We will continue our review of the Council's policies and procedures in quarters 3 and 4. During this time we intend to do further work on the Council's overall review structure and timetable with regard to policies & procedures. **Recommendations:** None to date.	N/a

Key Findings & Recommendations

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

Risk Area	Findings and Recommendation	Action Plan
Reconciliations Key reconciliations are undertaken on a timely and efficient basis, with reconciling items investigated to ensure compliance with internal policies, accounting standards and legislation as required. This ensures the reliability and integrity of financial information.	**Key findings** ▪ Following initial discussions with the Council's finance team, we identified a total of 12 key reconciliations and implemented a testing program designed to ensure a detailed review of each of the reconciliations was performed, along with monitoring of the timeliness of information and overall review process. At the report date, we have reviewed up to the end of month 4. ▪ As at the report date, we have individually reviewed the Council's Council Tax, Creditors, Housing benefit, NDR, Council Tax refunds, Housing Rents, Payroll and BIDS reconciliations. ▪ As at the report date, we note no instances where reconciliations have not been performed or where there was no evidence of review and sign off. However, of 48 reconciliations tested, we found 13 instances where the reconciliation had not been completed and reviewed within the agreed timescale. ▪ We were able to verify that reconciling items are reviewed and resolved on a timely basis. ▪ Of the individual reconciliations reviewed to date, we are satisfied in all cases that the ultimate aim of the reconciliation is achieved. However, we note that the payroll and housing rents reconciliations are highly complex. Based on discussions with finance staff, we understand that the payroll reconciliation has been amended and staff are considering adjusting the housing rents document. We are supportive of these developments. **Recommendations** **Issue identified:** 13 reconciliations were not performed in line with agreed timetable. **Root cause:** Resourcing issues and competing commitments of team members & annual leave. **Risk:** Delays in performance of control account reconciliations may lead to a delay in identifying & resolving potential errors in the Council's general ledger. **Recommendation:** The finance function should review its work timetable to ensure that team members are able to achieve agreed timescales. **Overall conclusion:** As noted above, testing noted no fundamental issues with reconciliations or instances where they were not performed or delayed for an unreasonable length of time. Some delays owing to issues such as leave commitments and competing work pressures are not unusual in this kind of organisation. Therefore we consider this to be a **low risk recommendation.**	Management Response: The time scale for sign off of reconciliations is being reviewed. The longest delay on review was on 3 of the reconciliations for ten working days during the busy final accounts, the rest were less than 3 working days late. Reconciliations are currently being completed on time. Responsible Officer: Michelle Lockett David Wallbanks Executive Lead: Ilyas Bham Due date: 30 November 2018

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
System Access System access is secure, with an adequate procedure in place to ensure that this access is limited to appropriate individuals and regularly reviewed to ensure access is revoked and provided as required.	**Key findings** ▪ Of 13 user accounts tested across the general ledger, creditors and debtors modules of Civica Financials, we noted no accounts with inappropriate access level. We also performed an overall review of access rights within the purchase order module and are satisfied that access levels are appropriate at the reporting date. ▪ Of 4 applications for new user access tested, in all cases we were satisfied that the request had been appropriately authorised, access levels provided were appropriate and that new users signed to confirm that they had attended training. ▪ During the course of our testing, we also noted one instance where the range of user sections assigned to a particular user appeared low and risked that individual not being able to see all transactions posted to their assigned range of codes for budget monitoring purposes. ▪ We performed a review of accounts with “full access” or “super user” rights and note what appeared to be a high number (13) on the debtors module, including one senior member of staff (activity by this user was reviewed and nothing of concern was noted). ▪ There was no formalised system of logging and monitoring new user, user amendment and leaver requests. **Recommendations** **Issue identified:** User did not have access to a full range of user sections in Civica Financials which prevented viewing of some transactions in a particular code. **Root cause:** Set up of privacy group structure means that not all users have access to the full range of user sections. **Risk:** Transactions from a particular user section posted to the user in questions range of codes are not visible to that user. This may prevent effective budget monitoring and challenge. **Recommendation:** The Finance team considers reviewing the privacy group structure to ensure that transactions posted from all user sections are visible during budget monitoring. **Overall conclusion:** Overall value of transactions in each code remains visible, therefore we deem this to be an **improvement point.**	Management Response: This will be considered as an improvement point as part of the budget setting update for 2018/19.. Responsible Officer: Fiona McArthur Executive Lead: Ilyas Bham Due date: 31 March 2019

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
System Access System access is secure, with an adequate procedure in place to ensure that this access is limited to appropriate individuals and regularly reviewed to ensure access is revoked and provided as required.	**Recommendations (continued)**	Management Response:
	Issue identified: High number of super user accounts on debtors module. **Cause:** High level of requests to raise invoice from users with no access to particular user sections. **Risk:** Individuals may be able to manipulate or distort budget reporting via unrestricted access to revenue module. **Recommendations:** The Finance team should review the privacy group structure to ensure that individual users are able to raise invoices as required and also considers reducing the number of users with this level of access. **Overall conclusion:** Mitigating controls, such as the overall budget monitoring and credit control processes, remain in place**.** Therefore, we consider this to be a **low recommendation.**	Recommendation 1: We will review access rights and restrict as needed if this meets business need Responsible Officer: Fiona McArthur Executive Lead: Ilyas Bham Due date: 31 March 2019 Recommendation 2: The mitigating controls reduce this to an acceptable level. However, to comply with good practice a periodic review of “open accounts” will be completed. Responsible Officer: David Wallbanks Executive Lead: Ilyas Bham Due date: 31 March 2019 Recommendation 3: Suitable mitigation is provided by segregation of network and Civica set up in terms of new users. Amendment forms are available for other changes. Therefore the cost of implementation is not considered proportional to the benefit gained Responsible Officer: Fiona McArthur Executive Lead: Ilyas Bham Due date: n/a
	Issue identified: There is no formal, timetabled review process of user access rights. **Cause;** Systems team receive periodic reports from HR around new starters and leavers. Owing to the size of the entity, monitoring of access rights on an ad hoc basis is achievable. Accounts are automatically closed after one month of inactivity. **Risk:** Unauthorised access or adjustments to ledger accounts occur as a result of inappropriate access levels. **Recommendations:** The Council implements a periodic review of open accounts to ensure that access rights across the organisation remain appropriate. **Overall conclusion:** Although mitigating controls (such as the automatic account closure following inactivity) are in place and testing did not note inappropriate activity, we did note at least one account where access rights were too high which presents a risk of unauthorised activity. We therefore deem this a **low recommendation.**	
	Issue identified: System of logging new user or amendment requests often did not include complete dates of request, or resolution. **Cause:** Although request forms are stored centrally, method of updating central log spreadsheet (for example; date format) was not consistent. **Risk:** Lack of effective audit trail may hinder investigation in the event of a future issue. **Recommendation:** The Council considers investigating the possibility of developing exception reports to monitor changes and new accounts. **Overall conclusion:** Although we were not able to identify a full population of requests actioned in year, those which were tested were compliant with policies and procedures and Systems staff were able to provide appropriate documentation. Therefore, we deem this to be an **improvement point.**	

Key Findings & Recommendations

Issue	Findings and Recommendation	Action Plan
Management Information Key financial data is complete, accurate, secure and produced on a timely basis to allow for effective monitoring of the Council's financial position and assist with effective decision making and compliance with legislation and internal policies.	**Key findings** ▪ We reviewed the Council's budget monitoring process for month 3. The Council's monthly budget monitoring process is generally well designed and executed, and provides timely, relevant information to members. However, we noted the following: ▪ There was no formal sign off process for budget holders to confirm that they have reviewed activity within their area. ▪ As part of the budget monitoring process, a report is published which pulls information directly from the ledger, which is then manually adjusted to explain timing differences and any other information which is not reflected in the ledger position but may be relevant to the budget review exercise. We noted that the formula in some cells within this report had been overridden with a hard coded value which was different from the ledger balance, suggesting adjustments had been made to the ledger value with no corresponding narrative within the report. **Recommendations** **Issue identified:** No formal, centrally held record of budget holders confirmation that budgets had been reviewed was held. **Cause:** Confirmation received via conversation or emails to management accounts team. **Risk:** Lack of formalised process and evidence trail means potentially no record to support the basis of adjustments or that it has been agreed and provides potential for there to be a lack of "buy in" to the process, leading to less effective budget monitoring. **Recommendations:** The Council considers setting up a central system of logging affirmations that individual budget reviews have been agreed and carried out on time. **Overall conclusion:** We consider this to be an **improvement point.** **Issue identified:** Information drawn from the ledger in central budget monitoring report can be overwritten. **Cause:** Report is open access and ledger value column is not protected. **Risk:** Source data could be adjusted with no narrative explanation added leading to inaccurate information being presented to management for budget monitoring purposes. **Recommendations:** Finance staff should lock the source data column within the raw report. This would ensure that all adjustments are made in the adjustments column. This would aid transparency and prompt complete narrative explanations. **Overall conclusion: T**his practice may lead to an error not being noted on a timely basis in budget reporting. Therefore, we deem this to be a **medium recommendation.**	Management Response: Recommendation 1: Agreed, annual email confirmation will be requested from Budget Holders Responsible Officer: Ilyas Bham Executive Lead: Ashley Wilson Due date: 30 April 2019 Recommendation 2: No actual errors were noted on review, the formula calculation was sometimes overtyped with an updated value to ensure budget reports were correct, but accept the reasons for this should have been documented. The formula column on the budget spreadsheet will be locked and protected, amendments then documented as needed. There is a mitigating global check that the budget report agrees to the general ledger information which would pick up if there was a difference, which would be investigated. Responsible Officer: David Wallbanks Executive Lead: Ashley Wilson Due date: 30 November 2018

Appendices

Appendix 1 – Staff involved and documents reviewed

Staff involved

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

Documents reviewed

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

Appendix 2 - Our assurance levels

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

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

Appendix 2 - Our assurance levels *(cont'd)*

The table below describes how we grade our audit recommendations.

Rating	Description	Possible features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	▪ Key activity or control not designed or operating effectively ▪ Potential for fraud identified ▪ Non-compliance with key procedures / standards ▪ Non-compliance with regulation
Medium	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	▪ Important activity or control not designed or operating effectively ▪ Impact is contained within the department and compensating controls would detect errors ▪ Possibility for fraud exists ▪ Control failures identified but not in key controls ▪ Non-compliance with procedures / standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	▪ Minor control design or operational weakness ▪ Minor non-compliance with procedures / standards
Improvement	Items requiring no action but which may be of interest to management or which represent best practice advice	▪ Information for management ▪ Control operating but not necessarily in accordance with best practice

Hinckley & Bosworth Borough Council

FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING

AUDIT COMMMITEE 22 November 2018

WARDS AFFECTED: All Wards

INTERNAL AUDIT RECOMMENDATION UPDATE

Report of Head of Finance

1. PURPOSE OF REPORT

1.1 To give an update to Audit Committee members on the action taken in relation to outstanding recommendations raised by our previous Internal Audit (IA) suppliers (PWC), as reported to the Committee in June 2018.

2. RECOMMENDATION

2.1 That members:
- note the current progress made on closing IA recommendations, and
- agree that the remaining recommendations are followed up by our current Internal Auditors (Grant Thornton), to update as part of their ongoing work.

3. BACKGROUND TO THE REPORT

3.1 The IA report provide in June to the Audit Committee noted the following, that there were 26 recommendations still open across 13 audits, of which 9 had been implemented, 6 partially implemented, 7 no response received and 4 were subject to testing as part of the 17/18 audits.

3.2 The information based on Traction (PWC's audit tracking database) as at the end of July 2018 is that 55 recommendations were required to be brought to close. The current position on these is that, in the main, actions had been taken, but the tracking software had not been updated.

3.3 Since then management have followed up the outstanding recommendation to ensure they have had action taken, to ensure that as many as possible are closed. Following that review, the position is as summarised in the table below.

	Advisory	Low	Medium	High	Total
Closed	7	28	16	1	52
Not yet due		1			1
Not yet due (new date set)	1	1			2
All items	8	30	16	1	55

3.4 The review indicated that only 5% of recommendations had no action taken by the due date, and indicated that in the main the issues was that evidence of action had not been included on the audit tracking software by managers. Therefore, a large element of the fault appears to have been with completing the updates to the audit software and communication with IA as opposed to no action being taken.

3.5 There are three not yet due, of these:

- two have a revised deadline, one has changed as original recommendation now needs to comply with requirements of GDPR which has nationally agreed compliance date of Sept 2019, and one needs some additional time to complete due to workload.
- the other is not yet due.

The recommendations “not yet due” are noted in appendix 1.

3.6 Following this review, the remaining recommendations, along with the review completed to date, will be provide to our current Internal Auditors for follow up and review as part of their ongoing work

4. EXEMPTIONS IN ACCORDANCE WITH THE ACCESS TO INFORMATION PROCEDURE RULES

4.1 Report to be taken in open session

5. FINANCIAL IMPLICATIONS (AW)

5.1 None

6. LEGAL IMPLICATIONS (AR)

6.1 None

7. CORPORATE PLAN IMPLICATIONS

7.1 To ensure the Council's governance arrangements are robust

8. CONSULTATION

8.1 Not required

9. RISK IMPLICATIONS

9.1 It is the council’s policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

9.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

9.3 There are no significant risks associated with this report.

10. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

Various reliefs are available for council tax under national and local regulations.

11. CORPORATE IMPLICATIONS

By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

Background Papers: Revenues and Benefits Monitoring Reports
Author: Ashley Wilson, Head of Finance Ext 5609
Executive Member: Cllr C Ladkin.

Audit Year	Audit Title	Finding	Finding Rating	Comment
2014	CWAS - Brought forward issues	CW Audit - IT Information Governance The Council does not maintain an Information Asset Register.	Advisory	New deadline set to comply with GDP requirements. 30/9/2019
2017	Revenues and Benefits Partnership 2017/18	Businesses are eligible to receive a number of different discounts and exemptions. In order to obtain an exemption where a property is empty individuals can telephone the Partnership and request such an exemption is applied. The Partnership will make a note on the system record of the phone call to evidence why the exemption has been applied. In all other cases a request is required in writing and consideration should be given as to whether a telephone call is sufficient to justify application of an exemption. In all instances tested a record of the phone call was recorded on the system to support the application of an exemption. The onus is on businesses to inform the Partnership regarding any changes in their circumstances which may affect the receipt of discounts and exemptions. Although an annual check is undertaken on unoccupied properties we identified that there is equivalent check performed on occupied properties to confirm that discounts such as Small Business Rate and Charitable Relief remain appropriate.	Low	Due 31/3/2019

Audit Year	Audit Title	Finding	Finding Rating	Comment
2017	Revenues and Benefits Partnership 2017/18	The onus is on residents to inform the Council regarding any changes in their circumstances. However, every two years a review is performed -a letter is sent out to occupied properties currently in receipt of a discount or exemption to confirm that their circumstances have not changed and the applied exemption or discount remains appropriate. Testing identified 11 of the 25 exemptions and discounts sampled where this annual review had not taken place. This related to 3 Hinckley Bosworth Borough Council and 8 North West Leicestershire properties. Of these:•2of the 11 did not have a review date included on the system;•4of the 11 had a review date in the past, however this was incorrect and the system had not been updated; and•5of the 11 had a review date recorded in the system which had passed but no review had taken place.	Low	New deadline agreed for the 31/12/2018 due to work load

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