

Internal Audit Annual Report and Annual Head of Internal Audit Opinion 2020/21

Hinckley and Bosworth Borough Council

10 January 2022

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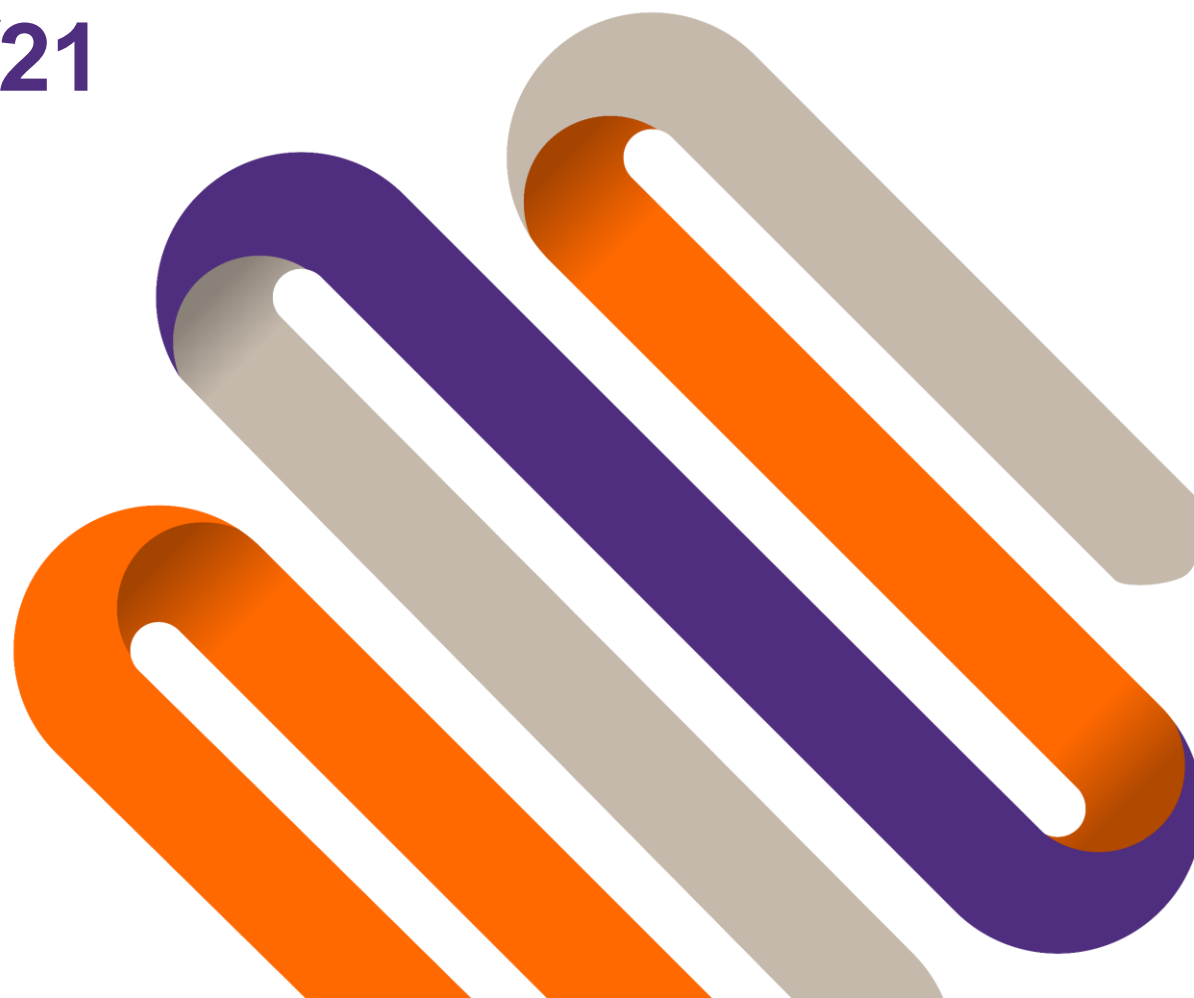
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This report is confidential and is intended for use by the management and directors of The Hinckley and Bosworth Borough Council. It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third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

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

Introduction

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

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

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

To meet the above requirements, this Annual Report summarises our conclusions and key findings from the internal audit work undertaken at Hinckley and Bosworth Borough Council during the year ended 31 March 2021, including our overall opinion on Hinckley and Bosworth Borough Council’s internal control system.

Acknowledgement

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

Internal Audit Summary

Scope and responsibilities

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

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

Internal audit

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

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

Internal Audit Summary (continued)

Good practice

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

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

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

Internal Audit coverage

The Internal Audit Plan comprises 130 days per annum. In March 2020, due to the impact of Covid-19, management requested that we suspended all internal audit activity until further notice and we did not restart our work until the autumn of 2020. We undertook sufficient work in 2019/20 to provide our opinion, with any outstanding days being included in the audit programme for the 2020/21 audit plan.

This impacted our delivery for 2020/21 and in discussion with management we reprofiled the three year plan, agreeing to deliver 150 days of work in 2020/21. Due to changes in management priorities, mainly driven by the impact of Covid-19, there were some further changes to the delivery as detailed later in the report.

Internal Audit planning

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

Management has specifically directed us to areas where controls and processes have been impacted by Covid-19 and where they consider their greatest risks lay.

Internal Audit Summary (continued)

There are three areas where we have not reported as planned:

Town centre recovery

This work was planned to be undertaken in 2020/21 and the work was scoped. Following this initial scoping, management concluded that the time was not right for us to undertake the work as management has instigated a formal review in this area since our plan was drawn up and the initial work scoped. As this was relatively late in the audit cycle we judged that we would not substitute other work. The days allocated to this review have been used to support over-runs in other areas.

Housing voids

This work was disrupted in 2019/20 by the Covid-19 related suspension of our work. The work was nearing completion when we were requested to cease activity.

We attempted to complete our work in 2020/21, however a number of the findings and the ways of working had, by necessity, been impacted by the pandemic. Due to this, and the elapsed time since our sample testing was undertaken, we concluded that our findings, conclusions and recommendations would not necessarily reflect the arrangements operating during 2020/21.

We therefore have not issued an assurance level for this report and will issue the report to management as an 'advisory' report. And findings, conclusions and recommendations will be considered by management in their oversight and management of this area going forward.

Internal Audit Summary (continued)

Cashless parking

This review was brought forward from the prior year and was included in the plan due to the implementation of a new system. Scoping of the work identified that the number of controls for us to test were limited, and therefore, the relative risk associated with this area was also limited. We have not therefore issued a detailed report, but agreed to summarise our findings as follows:

The council operates 17 car parks all of which have cashless parking capability and customers pay for their parking using machines operated by a company called Metric. These machines produce monthly transactional reports which can be accessed by HBBC via an online portal. The card transactions themselves are processed via Capita's income system which is used by HBBC for all card transactions income.

We identified two key controls:

1) a monthly reconciliation is completed by the Car Parks team between the general ledger and the Metric parking report. We obtained reconciliations for 2020/21 and reperformed these for July 2020 and January 2021. We consider that the controls are appropriate and have made the following recommendations, based upon our findings.

- Improvement point: Consideration should be given to setting a threshold above which variances will be formally investigated. This could be a fixed percentage of monthly or cumulative income, or an absolute amount.
- Medium risk: It should be ensured that the monthly reconciliation between the Metric parking report and Capita card transaction report is completed in a timely manner which was not deemed to be the case for 2021/22. The reconciliation should be signed and dated as completed to evidence the timeliness of this control.

2) The second control is a rolling daily reconciliation between the Cash & Deposit book (all card based transactions detailed within the daily Capita report, not just cashless parking) and bank by the Controls Accountant. This ensures that income recognised accurately reflects that received by HBBC. There are no issues in relation to this control.

We concluded that overall the level of assurance is **Significant assurance with some improvement required**. We have discussed the recommendations with management and they have agreed to consider implementing these going forward.

Summary of reports by overall opinion

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

The internal audit reports that have been issued in 2020/21 are summarised in the table below. The definitions used to provide conclusions on reports, and the risk assessment of individual actions are set out in Appendix 1.

Review	Report conclusion	No. of recommendations raised			
		High risk	Medium risk	Low risk	Improvement
Financial systems	Partial assurance with improvement required	-	2	4	5
Risk management	Partial assurance with improvement required	-	3	4	-
Cashless parking	Significant assurance with some improvement required	-	1	-	1
Revenues and benefits partnership	Significant assurance	No recommendations			
Commercial property management	Partial assurance with improvement required	3	3	1	1
Communications strategy	Significant assurance with some improvement required	-	-	1	1
Review of medium term financial plan	Partial assurance with improvement required	-	2	8	2
Housing voids	Advisory				
Town centre recovery	Review withdrawn by Management	No recommendations			
Leisure contract management	Significant assurance	No recommendations			
Total		3	11	18	10

Performance of Internal Audit

Independence

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

We can confirm that the staff members involved in each 2020/21 internal audit review, including any work brought forward, were independent of Hinckley and Bosworth's operational processes and their objectivity was not compromised in any way.

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

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

Conformance with Public Sector Internal Audit Standards

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

Quality control

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

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

2020/21 Head of Internal Audit Opinion

Hinckley and Bosworth Borough Council

Basis of Opinion for the year ending 31 March 2021

This report is our annual summary of the internal audit work carried out for Hinckley and Bosworth Borough Council this year. All reports have been presented to the Audit Committee following their agreement with Management. All findings, if not formally reported have been summarised in this report.

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

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

Respective roles and responsibilities

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

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

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

2020/21 Head of Internal Audit Opinion

Respective roles and responsibilities (continued)

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

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

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

Operational assurance

The emergence of Covid-19 pandemic in early 2020 and the restrictions on movement and social distancing advised by the Government in March 2020 have impacted on the scope of the audit work undertaken and the delivery of the work as initially planned. In consultation with management the risk based audit plan was modified from that originally agreed and the reviews have been limited to those considered by management to be of significant risk in the context of the pandemic, resulting in a relatively narrow focus to our work. This has been considered in the forming of our Head of Internal Audit Opinion.

2020/21 Head of Internal Audit Opinion

Overall reporting

Eight internal audit reports have been issued in 2020/21, of which:

- 2 reports were issued with significant assurance
- 2 reports were issued with significant assurance with some improvement required
- 4 reports were issued with partial assurance with improvement required

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

The partial assurance opinion reports were on two of the core review areas; risk management and financial systems. The other two partial assurance reports related to risk-based audit assignments which were the review of the medium term financial plan and commercial property management. Here we identified weaknesses which put system objectives at risk.

Audit recommendations

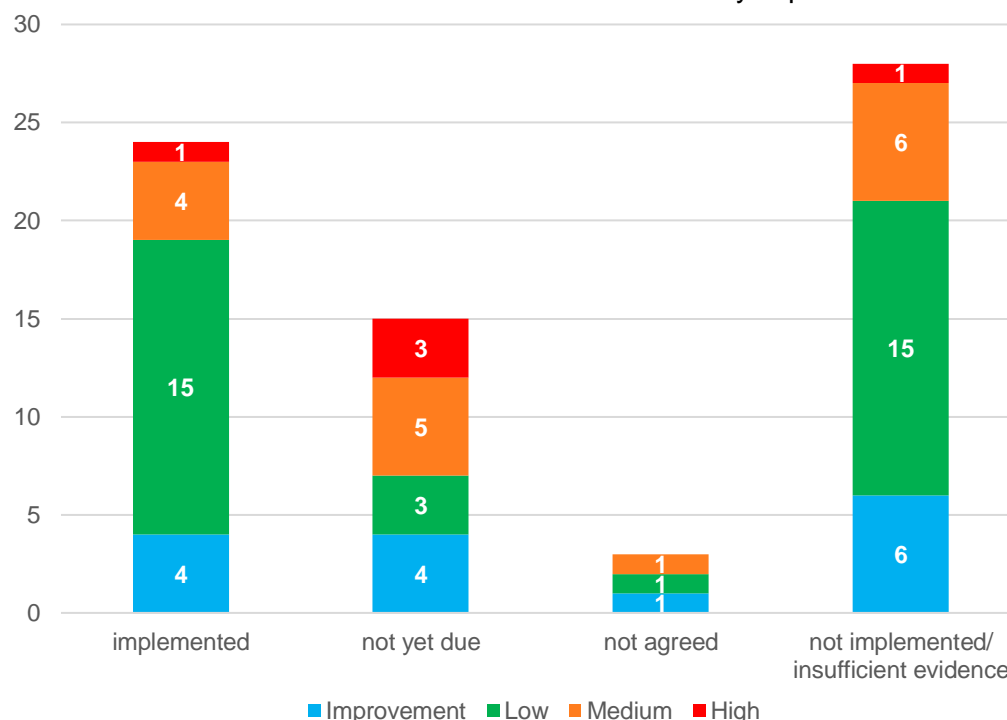
In 2020/21 we made 42 recommendations, 3 high risk, 11 medium risk, 18 low risk and 10 improvement points.

As part of the Public Sector Internal Audit Standards, I am required to consider the appropriateness of the organisation's response to Internal Audit recommendations and action subsequently implemented.

We report to Audit Committee meetings management's progress in implementing internal audit recommendations. It is the responsibility of management to ensure that recommendations are implemented within agreed timescales to mitigate identified risk. Our role is to request updates on progress and assess evidence provided. During 2020/21 and beyond we have continually requested updates and evidence from management to all outstanding high and medium risk recommendations.

It is important that management takes greater responsibility for recommendation tracking and provides appropriate evidence to support implementation going forward. This will provide the Audit Committee with assurance that appropriate action is being taken to address identified weaknesses in controls.

As summarised graphically below, we have not received an update on all recommendations and for a number, management has confirmed that actions have been implemented but limited or no evidence has been supplied to support the position. We are therefore not in a position to confirm whether these recommendations have been fully implemented.



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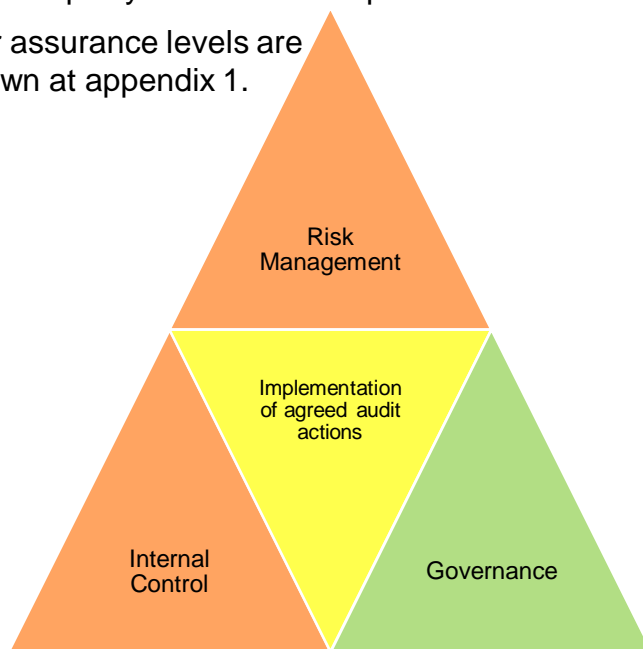
2020/21 Head of Internal Audit Opinion

Opinion

The basis of our opinion is an assessment of the range of individual assurances arising from our risk-based internal audit assignments that have been reported throughout the year. My Opinion is provided primarily on the basis of work undertaken to date within the Internal Audit Plan for the 2020/21 financial year and is limited to the scope of work that has been agreed with Council management and as shared with the Audit Committee, detailed within final reports. This assessment has taken account of the relative materiality of the areas reviewed.

Any opinion level provided must, therefore, be considered in terms of the agreed review scope only and no inference may be assumed by the Council or other users of my report, that this opinion extends to the adequacy of controls and processes outside the scope agreed.

Our assurance levels are shown at appendix 1.



Opinion continued

The basis of our opinion is as follows:

- An assessment of the design and operation of the underpinning Assurance Framework and supporting processes; and
- An assessment of the range of individual assurances arising from our core and risk-based internal audit assignments that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas.
- The extent to which you have responded to audit recommendations.

Our overall opinion for the period 1 April 2020 to 31 March 2021 is that based on the scope of reviews undertaken and the sample tests completed during the period, that:

*“Overall, **significant assurance with some improvement required** can be given on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.*

We identified weaknesses in our reviews of risk management and core financial controls, both of which are core areas. We also identified weaknesses in the arrangements for commercial property management and medium term financial planning. Our follow up of progress in implementing the high and medium risks identified from these reviews found that sufficient progress has been made on the medium and high risk recommendations to allow greater assurance to be provided in our opinion.

The Council should place greater emphasis on the implementation of recommendations, with greater ownership, a focus on the greatest areas of risk, and ensuring sufficient evidence is provided to demonstrate implementation and embeddedness.”



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Appendices

Appendix 1 – Our assurance levels

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

Appendix 1 – Our assurance levels (cont'd)

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

