



cw audit services

**Hinckley & Bosworth
Borough Council**

**Annual Internal Audit Report 2013/14
May 2014**

Getting value from your service

Contents

1. Introduction	1
2. Annual Head of Internal Audit Opinion	2
3. Work undertaken during the year	3

1 Introduction

This annual report provides my opinion (see section 2) as the Head of Internal Audit to Hinckley & Bosworth Borough Council. It also summarises the activities of Internal Audit for the period 1st April 2013 to 31st March 2014.

The Council is required by law (Accounts & Audit Regulations 2011) to maintain an adequate and effective system of internal audit of its accounting records and internal control systems in accordance with proper internal audit practices. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide a written report to those charged with governance, to support the Annual Governance Statement, (AGS), setting out:

- An opinion on the overall adequacy and effectiveness of the organisation's control environment ;
- Disclose any qualifications to that opinion, together with the reasons for that qualification;
- Present a summary of the work carried out by Internal Audit during the year from which the opinion is derived, including any reliance that is being placed upon third party assurances;
- Draw attention to any issues the Head of Internal Audit deems particularly relevant to the Annual Governance Statement (AGS)
- Consider delivery and performance of the Internal Audit function against that planned;
- Comment on compliance with these Standards and the results of any quality assurance programme.

The Council should consider my opinion, together with management assurances, its own knowledge of the organisation and assurances received throughout the year from other review bodies (such as External Audit) when producing its AGS.

My opinion takes into account the range of individual opinions arising from risk-based audit assignments that have been reported throughout the year. An internal audit plan was developed to provide you with independent assurance on the adequacy and effectiveness of systems of control across a range of financial and organisational areas. **A summary of the work we have performed and delivery against the plan is provided in section 3.**

Alongside the delivery of the operational internal audit work, we have met regularly with Council management to ensure any issues regarding our performance could be highlighted and any necessary action taken to resolve these. Following each audit, management are also requested to provide feedback on the service received. No significant issues or concerns regarding the internal audit service have been raised to date.

2 Annual Head of Internal Audit Opinion

Roles and responsibilities

The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

Internal Audit provides an independent and objective opinion to the organisation on the control environment and plays a vital part in advising the organisation whether these arrangements are in place and operating correctly.

The Annual Governance Statement (AGS) is an annual statement by the Leader and Chief Executive, that recognises, records and publishes an authority's governance arrangements.

In accordance with PSIAS, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Finance, Audit and Performance Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below. The Head of Internal Audit's role is also covered by the CIPFA Guidance on the Role of the Head of Internal Audit; we consider we comply substantially with the content of this Guidance.

The opinion does not imply that Internal Audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans. As such, it is one component that the organisation takes into account in making its AGS.

The Head of Internal Audit Opinion

My opinion is set out as follows:

1. Overall opinion;
2. Basis for the opinion;

My **overall opinion** is that **significant** assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.

The **basis** for forming my opinion is as follows:

1. An initial assessment of the design and operation of the underpinning risk management framework and supporting processes; and
2. An assessment of the range of individual opinions arising from risk-based audit assignments contained within internal audit risk-based plans that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.
3. Any reliance that is being placed upon third party assurances.

3 Work undertaken during the year

Summary of assurances provided

During the course of the year we have conducted work to provide assurance over financial, governance and operational systems. Appendix One summarises the assurance levels we have given.

Delivery of the plan

An internal audit plan for 2013/14 was developed to provide you with independent assurance on the adequacy and effectiveness of systems of control across a range of financial and organisational areas. To achieve this our internal audit plan was divided into two broad categories; work on the financial systems that underpin your financial processing and reporting and then broader risk focused work driven essentially by principal risk areas that had been identified in your risk register. A summary of work undertaken is included below:

- During the year we have undertaken reviews of your core financial systems (including financial management, general ledger and financial transactions) and given full or significant assurance with regard to the management of risk in these areas.
- We have undertaken a number of pieces of work on areas of principal risk. In general we have been able to conclude that these systems are robust and operate in a good control environment.

It is my view, taking account of the respective levels of assurance provided for each audit review, an assessment of the relevant weighting of each individual assignment and the extent to which agreed actions have been implemented, that you have a generally sound system of internal control.

We are pleased to report that our work has not highlighted any weaknesses that should be regarded as Significant Internal Control Issues that would require disclosure within your AGS.

We did however identify some weaknesses in control that caused us to limit the level of assurance we could give in the following areas:

- Members Allowances – our review of the Scheme of Allowances and payment to members in relation to the approved scheme highlighted that there was no independent remuneration panel in place between 2007 and 2012 and no clear guidance on its recruitment or operation had been developed. Mileage rates paid to Members were not in accordance with the Scheme approved by Council and were based on a decision made by a member body which was not a decision making forum as per the Constitution. Also, the Council had not fully complied with relevant Regulations in connection with publicising the recommendations made by their independent remuneration panel, their scheme of allowances and the actual allowances paid to members in any given year.
- Car Parks – our review identified that there were no current formal agreements for the maintenance of the car park machines or cash collection, counting and banking, and that neither of these services had been subject to market testing recently. There were no management checks at the time to confirm that the Council was being invoiced correctly for services received.

In both cases management agreed action plans to address the issues, and the implementation of the agreed actions has formed part of the monitoring by, and reporting to, Finance Audit & Performance Committee.

We also are in a position to update on the Significant Internal Control Issue that we referred to in our 2012/13 HoIA opinion, namely Housing Repairs management – concerns around ordering and pricing of work, arrangements to authorise internal and external works orders and variations, and effective use of the Orchard system were raised in 2012/13. We undertook work during 2013/14 to consider, amongst other issues, the degree to which management had implemented an agreed improvement plan to address concerns we, and management, had raised during 2012/13. We were able to provide significant assurance that the implementation plan was being delivered, making two medium priority recommendations for further action in our report. We accordingly have no reason to consider that this matter needs to be highlighted again as a Significant Internal Control Issue for 2013/14.

Third party assurances

In arriving at our overall Annual Head of Internal Audit Opinion, we have not sought to place reliance on any third party assurances.

Following up of actions arising from our work

All recommendations and agreed actions are subject to an ongoing recommendation tracking process that is facilitated by CW Audit Services, but completed by the relevant managers responsible for implementing the recommendations. This is undertaken on a self-assessment basis, but is supplemented by our independent follow-up reviews where this is deemed necessary (for example following the issuance of a limited or moderate assurance report). A summary of the recommendation tracking results for the 2013/14 year is included as Appendix 2 to this report.

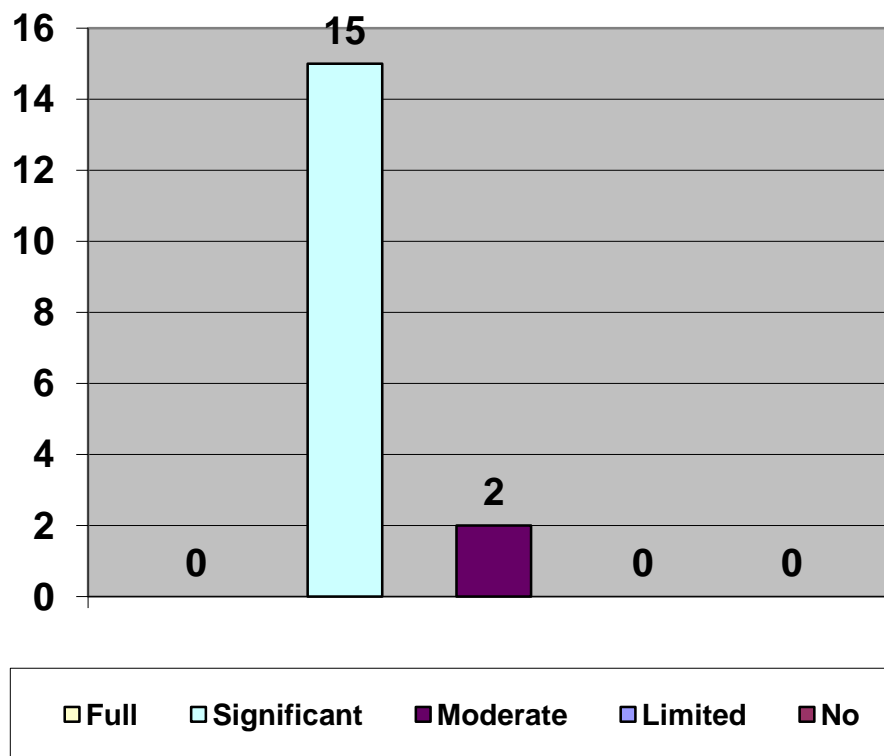
In addition elements of our work involve annual coverage of key areas of control for the organisation, such as in relation to key financial systems, and in such cases we also routinely follow up previously-agreed actions at each review.

Closing remarks

I have discussed and agreed this Annual Report and Head of Internal Audit Opinion with the Finance, Audit & Performance Committee. Further detailed findings, conclusions and recommendations in the areas covered by our internal audit plan are covered within the progress reports and individual assignment reports that have been issued to the Committee during the year.

Levels of Assurance – Individual Audit Assignments

Audit Review	Level of Assurance
Budgetary Control	Significant
Main Accounting	Significant
Council Tax (LRBP)	Significant
Business Rates (LRBP)	Significant
Benefits (LRBP)	Significant
Financial Systems – key controls	Significant
Payment Card Industry Data Security Standards compliance	Significant
IT audit – risk assessment (advisory)	Not yet complete
Members allowances	Moderate
Risk Management	Significant
Additional: Customer Services (reception)-second stage review following move to the Hub	Narrative
Payroll & expenses	Significant
Mobile Communications - advisory	Not yet complete
Anti-Social Behaviour Management System	Significant*
Housing Rents	Significant*
<i>Tenant Scrutiny</i>	N/A
<i>Sheltered Housing</i>	N/A
<i>Community Safety</i>	N/A
<i>Carbon Management Plan</i>	N/A
Section 106 agreements/contributions	Significant
Hinckley Club for Young People	N/A
<i>Leisure Centre</i>	N/A
Markets	Significant
Housing Repairs	Significant
Car Parks	Moderate
Street Cleansing	Significant
Additional: DECC grant claim sign-off	N/A



*at draft report stage

Reviews in italics dropped from plan by agreement.

In addition we also commenced involvement providing project assurance regarding agreed key corporate projects.

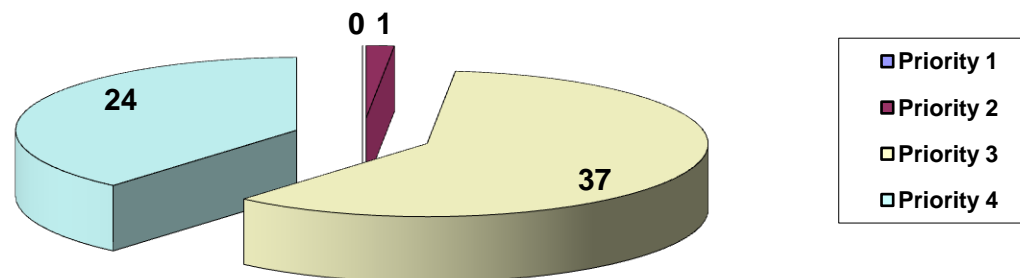
Key to assurance levels

Level of assurance	Criteria
Full	No significant risk issues identified
Significant	Exposure to levels of risk that may only impair the effectiveness of the system or process under review
Moderate	Exposure to levels of risk that render some elements of the system's control environment undeliverable
Limited	Exposure to unacceptable level of risk that could have a serious impact upon the system or process under review
No	Exposure to unacceptable levels of risk that could have a serious impact upon the organisation as a whole

Summary of Internal Audit Recommendations

Recommendations made in 2013/4

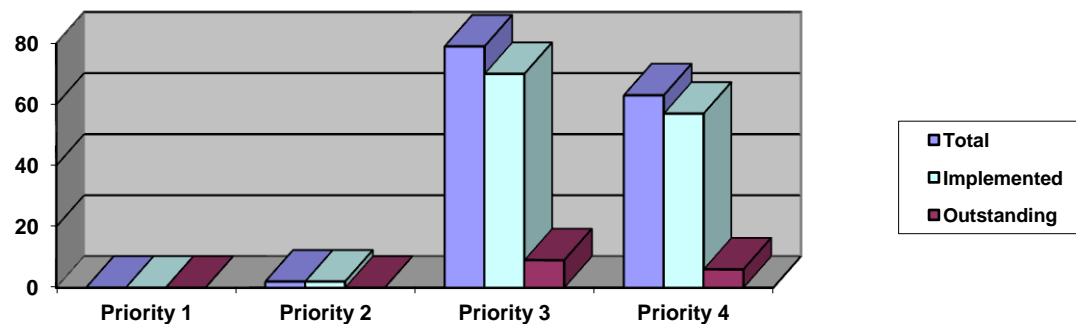
Priority	Number
1	0
2	1
3	37
4	24
Total	62



Current status of all recommendations made and due for implementation by 31st March 2014

Priority	Number	Impl*	O/S
1	0	0	0
2	2	2	0
3	79	70	9
4	63	57	6
Totals	144	129	15

*incl. 'closed'



Definition of our risk rankings

Risk ranking	Assessment rationale
1	The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, and which may also impact on the delivery of one or more of the organisation's strategic objectives.
2	The system has been subject to high levels of risk that have, or could, prevent the system from meeting its objectives, but which are unlikely to impact on any of the organisation's strategic objectives.
3	The system has been subject to medium levels of risk that have, or could, impair the system from meeting its objectives.
4	The system has been subject to low levels of risk that have, or could, reduce its operational effectiveness.