

Internal Audit Annual Report 2015/2016

Hinckley and
Bosworth Borough
Council

April 2016

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Distribution List

For information: Section 151 officer

 Members of the Finance, Audit and Performance
 Committee

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

1. Executive summary

Introduction

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

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

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

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

Internal Audit Services

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

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

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

Head of Internal Audit Opinion

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

Opinion

Our opinion is as follows:

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

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

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

Basis of opinion

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

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

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

Commentary

In summary, our opinion is based on the following:

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

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

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

Acknowledgement

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

2. Summary of findings

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

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

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

3. Internal Audit work conducted

Introduction

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

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

Draft reports

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

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

Results of individual assignments

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

Comparison of planned and actual activity

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

Variations in planned activity

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

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

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

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

Opinion

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

Internal control

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

Future periods

Our assessment of controls relating to Hinckley and Bosworth Borough Council is for the period 1st April 2015 to 31st March 2016. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Opinion types

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





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

Appendix 3: Basis of our classifications

Report classifications

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

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

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

Individual finding ratings

<i>Finding rating</i>	<i>Assessment rationale</i>
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>



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

This document has been prepared only for Hinckley and Bosworth Borough Council and solely for the purpose and on the terms agreed with Hinckley and Bosworth Borough Council in our agreement dated April 2015. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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