

Internal Audit Annual Report 2016/2017

Hinckley and
Bosworth Borough
Council

June 2017

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Distribution List

For action	Ashley Wilson, Section 151 Officer
For information	Members of the Audit 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 contract dated 10th May 2016.

1. *Executive summary*

Introduction

This report outlines the internal audit work we have carried out for the year ended 31 March 2017.

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 Audit 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 Audit Committee agreed to a level of internal audit input of 130 days, of which 120 days were delivered. The unused days have been rolled forward to 2017/18 to extend the scope of next year's internal audit provision.

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

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
<p>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.</p> <p>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.</p>			

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:

- All audits undertaken during the year;
- Any follow up action taken in respect of audits from previous periods; and
- Our insight gained from our regular attendance at the following:
 - Audit Committee
 - Corporate Direction Management Team meetings

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

Commentary

The key factors that contributed to our opinion are summarised as follows:

- None of the individual weaknesses or overall reports had a classification of critical risk;
- We identified three high risk findings in relation to:
 - *Finance*: reconciliations provide the Council with high-level assurance that the finance systems are operating as intended, and are a key control over fraud risks. They need to be completed regularly with any issues promptly addressed, to confirm the operation of the systems, to identify any issues, and to protect staff should there be a problem.

Four of the six reconciliations tested (bank, payroll, creditor and debtor accounts) had reconciling items with no explanation, some of which had not been dealt with promptly. The payroll reconciliations had no evidence of review.

- *Revenues and benefits*: the HBBC BACS payment card and online password were too readily accessible within the department which increases the risk of unauthorised access.
- *Information and Cyber Security*: this area needs constant attention given the scale of the risks and the pace of change in technology. There are three main risks:
 - Unauthorised access to systems through inappropriate logon and password use
 - Data loss through employees, contractors and others taking data from systems
 - External cyber attack

The Council uses a tool called Kiwi to monitor user activity in logging into and using key systems and processes, but has limited ability to monitor suspicious activity on the network, data loss, or to manage security incidents

- Medium and low risk rates weaknesses were identified in individual assignments but these were not considered significant in aggregate to the system of internal control. 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 9 internal audit reviews. This resulted in the identification of 3 high, 13 medium and 17 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>Internal Control Issues</p> <p>During the course of our work we identified some weaknesses that we consider should be reported in your Annual Governance Statement</p>	<p>We have reported three high risk findings as part of our work in 2016/17. We have referenced the high risk findings above and other key factors that contributed to our opinion.</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 previously agreed actions.</p>	<p>Last year we implemented a new system, TrAction, which the Council now uses to record all internal audit findings and monitor progress in implementing recommended actions.</p> <p>We have worked with management throughout the year to review the recommendations and actions agreed to ensure that they are still relevant. See section four.</p> <p>We will continue to follow these up as part of the 2017/18 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"> • Environmental Health • Corporate Governance • Partnerships • Housing • Community Safety

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.

Results of individual assignments

Review	Report classification	Number of findings			
		Critical	High	Medium	Low
Finance	Medium	-	1	1	2
Housing	Low	-	-	-	-
Community Safety	Draft*	-	-	2	2
Environmental Health	Low	-	-	-	2
Estates and Assets	Medium	-	-	4	1
Revenue and Benefits	High	-	1	1	3
Corporate Governance	Low	-	-	1	2
Partnerships	Low	-	-	-	1
Information and Cyber Security Review	High	-	1	4	4
	Total	-	3	13	17

* The draft Community Safety report was issued to management during March 2017, and a meeting is scheduled for July 2017 to discuss the draft and finalise the report. We do not expect the outcome of this to impact on our Annual Opinion. Once finalised, the report will be shared with the Audit Committee.

Direction of control travel

<i>Finding rating</i>	<i>Trend between current and prior year</i>	<i>Number of findings</i>	
		<i>2016/17</i>	<i>2015/16</i>
Critical		0	0
High		3	1
Medium		13	14
Low		17	22
Total		33	37

Although there were a similar number of audit days in the plan we have extended the scope of individual reviews therefore this year we performed 8 individual reviews compared with 10 individual reviews last year. This may distort the reported number of findings and trend between the current and prior year.

Comparison of planned and actual activity

<i>Audit Unit</i>	<i>Budgeted days</i>	<i>Actual days</i>	<i>Comments</i>
Finance	15	13	The approved internal audit plan included 2 days to support the Council with its refresh of the Corporate Plan and DCLG efficiency plan – this time was not utilised.
Compliance	10	10	Actual days were in line with the original plan.
Corporate Governance	15	13	The approved internal audit plan included days to support the Council in preparing of the LGA Corporate Peer Challenge – this time was not utilised.
ICT	12	12	These days were used to extend the scope of the Compliance review and delivered as one Cyber Security report
Estates and Assets	16	14	The approved internal audit plan included days to support the Council with its development of the Hinckley & Bosworth Development Company – this time was not utilised.
Housing	6	6	Actual days were in line with the original plan.
Community Safety	6	6	Actual days were in line with the original plan.
Partnerships	10	10	Actual days were in line with the original plan.
Environmental Health	6	6	Actual days were in line with the original plan.
Revenues and Benefits Partnership- Housing Benefit	7	14	Actual days were in line with the original plan.
Revenues and Benefits Partnership- Fraud prevention and detection	7		
Project Management	8	8	Actual days were in line with the original plan.
Prior year recommendations follow up	7	3	Since there was limited progress in reporting implementation of previous internal audit recommendations we did not utilise all the days originally allocated to complete this work.
Contingency	5	5	Actual days were in line with the original plan.
Total	130	120	The 10 day variance will be used to extend the scope of our internal audit plan next year.

Implications for management

We are working closely with management to develop next year's plan to support the Council in implementing their plans and providing the Audit Committee with adequate assurance. The 2017/18 Internal Audit Plan will be presented separately to the Audit Committee for approval.

4. Follow up work conducted

Introduction

In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented. In accordance with our internal audit plan, we followed up a sample of recommendations made in prior years to ascertain whether action had been taken. The table below summarises the follow up work performed.

Results of follow up work

Audit unit	Report classification	Number of agreed actions	Status of agreed actions	
			Implemented	Outstanding
Financial Systems	High	6	2	4
Medium Term Financial Strategy	Low	1	-	1
Corporate Governance and Risk Management	Medium	5	1	4
Safeguarding	Medium	5	3	2
Housing Rents	Medium	3	-	3
Building Control	Medium	5	3	2
Town Centre Management	Low	4	2	2
Housing Repairs	Low	2	1	1
Council Tax	Medium	3	-	3
Business Rates	Low	2	-	2

Summary

We have reported to the Audit Committee throughout the year that there has been limited progress regarding updating our recommendation tracker, TrAction, to reflect the status of agreed actions from the prior year. Where implemented there has been limited evidence included on the system for us to validate recommendations have been implemented and remove the system.

We recommend that further work is conducted by Hinckley and Bosworth Borough Council to ensure all previously agreed recommendations are implemented at the earliest opportunity.

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 Audit 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 2016 to 31st March 2017. 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 judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.





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

Appendix 3: Basis of our classifications

Report classifications

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

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

<i>Report classification</i>		<i>Points</i>
	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

Finding rating	Assessment rationale
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>

Appendix 3: Performance of internal audit

Key Performance Indicators

We agreed a suite of Key Performance Indicators (KPIs) with management and the Audit Committee. Our performance against each KPI is shown in the table below. These highlight the focus of our work and the standard attained:

KPI	Target	Performance	Comments
Infrastructure			
• Audits budgeted v actual	+/- 10 plan days	- 10 days	We have delivered the annual plan with a tolerance of 10 days agreed with management
Planning			
• % of audits with Terms of Reference	100%	100%	All audits have had a terms of reference agreed with the audit sponsor before work commenced
Fieldwork			
• % of audits with an exit meeting	100%	Request made to all staff to communicate findings with the main audit contact at the end of fieldwork. Feedback has been provided that this has not always happened.	We will ensure that in 2017/18 exit meetings are scheduled with the audit sponsor, as well as with the main audit contact at the end of the fieldwork, to discuss findings in advance of a draft report being prepared.
Reporting			
• Draft reports issued promptly	100%	67%	Draft reports should be issued within three weeks following fieldwork completion. For 3 reports this was not achieved: 1) Housing – there was a delay of 3 working days as a team member left the firm and there was a slight delay in transition 2) Community Safety – there was a delay of just over a week as the audit sponsor was on holiday so there was a delay in holding the closing meeting. 3) Corporate Governance – there was a delay in review of 2 weeks as the engagement manager was on holiday We will work closely to agree timescales for draft reports with the relevant audit sponsor in 2017/18.
Relationships			
• Overall client satisfaction score	9/10	-	We are in the process of requesting feedback from senior officers. We will provide an update once this has been received.



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.

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