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# *Internal Audit Report 2016/17*

## Estates and Assets

***Hinckley & Bosworth Borough Council***

*June 2017*

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Back

# Contents



## Distribution list

| | |
|---|---|
| For action: | Malcolm Evans, Estates and Asset Manager<br>Simon Jones, Cultural Services Manager<br>Ashley Wilson, Section 151 Officer |
| For information: | Audit Committee |

# Executive summary (1 of 6)

## Total number of findings

| The Crescent | Critical | High | Medium | Low | Advisory |
|---|---|---|---|---|---|
| Control design | 0 | 0 | 3 | 0 | 0 |
| Operating effectiveness | 0 | 0 | 0 | 0 | 0 |
| **Total** | **0** | **0** | **3** | **0** | **0** |

| The Leisure Centre | Critical | High | Medium | Low | Advisory |
|---|---|---|---|---|---|
| Control design | 0 | 0 | 0 | 0 | 0 |
| Operating effectiveness | 0 | 0 | 1 | 1 | 0 |
| **Total** | **0** | **0** | **1** | **1** | **0** |

***Report classification***

***The Crescent***

**Medium risk (9 points)**

***The Leisure Centre***

**Low risk (4 points)**

# Executive summary (2 of 6)

## *Background*

Over the last few years the Council has undertaken a significant redevelopment programme to regenerate the town centre, focusing initially on large Crescent and Leisure Centre redevelopments. In the current economic client the decision to undertake such projects was bold and challenged the risk profile of the Council yet demonstrated a real commitment to the regeneration of the town.

There is no doubt that both these developments have been highly successful, in that significant investment has been brought in, people have new and attractive facilities, and the Council has new revenue. The Council's initial investment of £4.5m has secured significant regeneration.

Our review has focused on the performance of these developments during 2016/7, their financial viability, realisation of benefits from capital investment, ongoing reporting and opportunities to learn from the projects from a governance perspective.

We did not consider how governance arrangements for the projects were originally established, nor the management of them whilst they were ongoing development projects.

## *The Crescent*

The Crescent is part of the wider redevelopment and regeneration of Hinckley town centre. The £4.5m investment in one of the blocks has supported the regeneration the area to make the town centre more modern and attractive as well as increasing footfall in the town. Whilst the project was developed primarily as a regeneration enterprise the Council has secured approximately a 5% return on its original investment which is positive in the current economic climate.

*Key facts about the project:*

- Tin Hat were appointed developers following an OJEU tender process;
- The original plan was to combine a food store, residential units, retail units and a car park, with the developers having full ownership of the new site. Now completed, the site is purely retail focused;
- As the project progressed, Tin Hat approached and agreed with the Authority for the Council to take ownership of Block C (cinema and restaurants);
- There was no formal agreement with any retailers prior to commencement of the project - Tin Hat stated in the tender that they had experience of working with some big national chains;
- A number of national restaurants have been approached to negotiate tenancy agreements for the units. Success in this respect has been limited with national restaurants but some smaller local restaurants have opened; and
- There are still two units in Block C that still remain unoccupied. Early in 2017, the Authority employed a second agent to market these units under a joint arrangement (FHP, and Strutt and Parker). Currently, there is lease revenue which is foregone, and marketing costs are being incurred.

# Executive summary (3 of 6)

Development of The Crescent was a significant undertaking given Hinckley's size, and responsibility for the various elements of the initial build and subsequent transition to business as usual involved a number of departments across the Council including estates, planning, regeneration and finance.

The former Chief Executive and Deputy Chief Executive were both heavily involved in the development of the project and transition to business as usual, including receiving updates on the status of lettings. There has been significant change in senior management in the organisation during the development which to a certain extent inevitably increases risk.

We sought to understand the Council's process for reporting and monitoring progress with the Crescent, taking into account the scale, novelty and risk associated with it, given the size of the borough. We were particularly focused on establishing the extent of information reported to Council on risks and costs, as well as any opportunity for further financial benefit. We reviewed:

- 2016/17 Medium Term Financial Strategy – this includes a table summarising that the projected rental income from unit C as £346,497 lower than planned; THP were looking to sell their units.
- January 2016 report to Council – recommending additional £650,000 capital budget to fund incentives for the sale of units within block C.
- 2016/17 Capital Programme presented to Council in February 2016 - "A report was presented to Council on 12 January 2016 requesting further developer incentive payments to accelerate the letting of units within Block C. A £1,300,000 budget has been included for accelerated works."
- Scrutiny Committee minutes: only reference was in December 2016 which gave a brief update on progress and flagged the two unlet units.
- Risk register: identified that the risk of units remaining unlet was included;
- Finance and Performance Committee meeting minutes; September and November 2016 outturn report reference the reduction in income but there is little detail on this.

The evidence provided demonstrates that there has been ongoing discussion throughout the year across the Council regarding the unlet units. At every stage the financial situation has been presented as prudently as is possible – omitting any uncommitted rental income and recognising in full any additional marketing costs.

We have asked for evidence that the benefits in the original business case have been tracked. At one level it is self-evident that the Council has achieved a significant regeneration of the town. At another, the scheme changed in a number of respects as did the Council's stake in it.

We concluded that while the scheme has been a success, the information and monitoring process is not sufficiently comprehensive or robust for members to be confident at every stage that the scheme would deliver its business case.

# Executive summary (4 of 6)

There is some useful information about the risks and finances in Council and committee papers, but not in sufficient detail or within a routine reporting process. Probably most importantly it is scattered, making it difficult to piece together the whole picture. We could not see how the realisation of benefits in the business case were formally tracked.

The lack of detailed financial information on the project also increases the risk that the financial consequences of the project are not properly managed going forward. We recommend that more detailed information is provided on a regular basis to members.

### *The Leisure Centre*

The Authority's new leisure centre has been built on the site of the previous Council offices, and was completed and opened in Spring 2016. The existing leisure centre continued to operate until the new facility opened to ensure continuity of service.

*Key facts about the project:*

- Total project cost was £15.1m;
- Capital funding amounted to £7.1m;
- The remainder was financed through borrowing;
- The facility was delivered approximately £150,000 under budget;
- Places for People (PFP) won the contract to deliver the operations on a 20 year term; and
- The annual gross management fee payable by PFP is in the region of £924,000, but this is reduced by the loan repayment resulting in net revenue for the Authority of around £485,000 per year.

The Authority receives a monthly operations report from PFP, covering both non-financial and financial aspects of the leisure centre operations. The management fee is payable to the Authority regardless of the level of activity at the facility, but PFP have already flagged gym membership as being significantly lower than anticipated since opening in May 2016.

The contract between the Authority and PFP states that the Authority would be eligible to receive 50% of PFP's surplus profit generated from the new facility. To date, no profit share has been agreed despite the contract being in operation for over a year, because there is no surplus profit on the scheme. The tender suggested gym membership of 3,000 but it is currently at 2,000. If the projected level was achieved, there would be surplus profit for the Council to participate in, but there appears to have been no thought given to how the Council might work with PFP to realise potential profit share, or indeed further health benefits for residents.

# Executive summary (5 of 6)

The leisure centre project was managed and monitored by a Project Team and a Project Board. The Board met frequently throughout the project, depending on progress. Since completion of the project, the Board meets approximately bi-monthly.

Our review has reviewed the significant information made available to demonstrate the overall financial cost of the project and ongoing financial and non-financial performance as an operational asset. The regular meetings with the contractor demonstrate effective governance and monitoring. The findings highlighted in relation to the Leisure Centre will improve the ongoing monitoring.

### *Good practice identified*

Client meetings between PFP and the Authority take place frequently and are structured such that the key points are discussed in detail and allowing the Authority to get adequate assurance over the running of the leisure centre. There is also evidence in the minutes we reviewed that the Authority monitors and challenges the information provided by PFP.

### *Summary of key findings*

### *The Crescent:*

***Finding 1 - Lack of information and transparency (medium risk) -*** we are satisfied that officers and members are aware of the ongoing issues relating to the two unoccupied units in Block C given the minutes reviewed. However, we have concerns that the full extent of the financial impact arising from this has not been made clear to members. The Authority has not yet undertaken an exercise to demonstrate lessons learnt have been reflected and ongoing monitoring of benefits realisation is underway.

### *The Leisure Centre:*

***Finding 2 – Governance and Reporting (medium risk)***– the terms of reference and remit of the Project Board are outdated and no longer reflect current practice as an operational asset. Only high level notes of these meetings are kept therefore it is not clear to see if action points and followed up and monitored.

***Finding 3 - Financial analysis (low risk)*** – since the leisure centre opened in May 2016, it is not attracting PFP's anticipated level of gym membership (approximately 1,000 members short). The Authority has not prepared an analysis of the associated impact, including the extent of potential profit share foregone.

***Finding 3 – Profit share (low risk)*** – the contract with PFP entitles the Authority to a 50% share of PFP's surplus profit. No confirmation of the value has yet been received despite the contract having being in operation for over one year. More importantly, the Authority does not receive adequate information from PFP to enable effective financial forecasting.

# Executive Summary (6 of 6)

## Background

The development of the Crescent and Leisure Centre projects demonstrated a real commitment to regenerating the town centre, especially in the current economic climate. The development has been a major success for the area. The initial £4.5 million investment made by the Council alongside the working relationship with Tin Hat Regeneration Partnership has brought about over £70 million investment in commercial and leisure schemes.

The projects themselves have:

- providing a major employment opportunity in a sustainable location, creating new investment opportunities and over 600 new jobs;
- providing retail, leisure and other facilities for the local community to meet identified need and help sustain the vitality and viability of the Town Centre;
- contributing to the growth and improvement of the town Centre with new quality retail and leisure facilities, leading to improved investor and visitor confidence in Hinckley;
- Assisted in preventing the identified leakage of spend out of Hinckley to competing centres, to underpin the viability of the Town Centre;
- improving the amenity of the area for those who work and live in the vicinity of the site;
- bringing significant improvements to the built environment and landscape of the Town Centre.

The Crescent site has created a modern, mixed-use development, well linked to the town centre providing larger units to complement the existing town centre shops and provide Hinckley with a purpose built, well configured retail scheme to meet modern needs. The scheme has also included public realm improvements to Station Road.

It is undeniably apparent what the success of the redevelopment has been. The Crescent, Hinckley, was shortlisted for three awards at a major property event at the East Midlands round of the RICS Awards 2016. These are in the shortlist in the commercial, regeneration and tourism & leisure categories. This would demonstrate the success of the development. To be considered for the RICS Awards the development has to be considered to showcase the most inspirational initiatives and developments in land, property, construction and the environment.

Also, it has not only physically transformed part of the town centre, but footfall figures are already demonstrating the approach is working and evening footfall has risen by 35%. The projects have also boosted employment, with 3,000 jobs created during the construction phase and some 600 new jobs available across the developments.

As the construction phase ends and business as usual commences the prospects are looking good: there are reports that Sainsbury's and Cineworld are trading well, while Tarro Lounge and TK Maxx saw extremely busy openings recently.

# Current year findings (1 of 3)

## The Crescent

**Control design**

**1**

### Finding rating

| | |
|---|---|
| Rating - Debrief | Medium |
| Rating – Financial viability | Medium |
| Rating - Reporting | Medium |

### Finding and root cause

For the Crescent, we have grouped our observations into one main finding:

***Debrief and lessons learnt***
Our main findings are:

- the Authority has not prepared a debrief or lessons learnt in relation to The Crescent project to inform the smooth running and delivery of future projects; and
- we have not seen evidence that a formal assessment of the non-financial benefits has taken place to establish whether the project has delivered as intended.

***Financial viability***
The Authority owns Block C of The Crescent site and rents out the units to bars and restaurants. The main issues we identified in this area are:

- of the nine available units, two have never been filled and attracting potential tenants is proving to be a challenge;
- the financial impact includes missed income in the region of £125,000 for 2016/17 and forecast as £125,000 in 2017/18, plus additional charges to the Authority through service charges and business rates; and
- no sensitivity analysis has yet been performed to assess the full impact of not fully renting out Block C.

A sensitivity analysis could form the basis for the options appraisal, allowing the decision to be made as to whether to retain ownership of Block C as a revenue stream (in its current or a revised format), or whether to sell it and use the capital raised to reinvest in future projects, which is planned over the next three to five months.

# Current year findings (1 of 3)

## Finding and root cause

***Reporting***

We reviewed minutes and papers presented to Council, Executive, Scrutiny Committee, Finance and Performance Committee, and Corporate Direction Management Team from 1st April 2016 to our fieldwork in January 2017.

Whilst we have seen that officers and members know about progress of the scheme and that units are unlet, we have not seen sufficient evidence to demonstrate a highly effective governance process is in operation. Communications do not fully detail the financial impact to the Authority (through missed income and continuing charges), the difficulty in attracting tenants, and what the impact of not being able to let out these units would be on the Authority's future finances.

Without having sufficient and accurate information provided to them on a regular basis, senior Authority officers or members cannot be in a position to adequately assess the position of the Authority or the impact on its finances.

## Implications

Not assessing how the project was delivered means that similar shortcomings may be experienced on future projects and good practice is not shared and replicated more widely at the Authority.

Without complete and accurate performance analysis (including how The Crescent was delivered as a project), Members are not in a position to make well-informed decisions as to the future of the asset.

## Action plan

1. Perform a full and accurate financial analysis of the Crescent and present this to Members.
2. Ensure that a full project debrief is performed within three months of project completion. This should include: good practice identified; areas of weakness to be mindful of on future projects; and next steps.

*Responsible person/title:*

Malcolm Evans, Estates and Asset Manager

*Target date:*

April 2017

# Current year findings (1 of 3)

## Management response

***Financial viability***

The reduced income is partly planned due to the rent free incentives we think we may have to give as part for the increased marketing ploy. These are funded via reserves. The repeating £28.9k is that we have more units filled the original budget is replaced with known rents; which is a normal part of negotiation of letting.

# Current year findings (2 of 3)

## Governance and reporting

### Operating effectiveness

2

**Finding rating**

| Rating | Medium |
|---|---|

### Finding and root cause

We identified the following issues in relation to governance and reporting of the Leisure Centre:

- **Terms of reference of the Project Board** – these have not been revised since July 2015 when the construction project was still underway. Since the opening of the new facility in Spring 2016, the leisure centre is operating as a business as usual operation and the focus of the group has changed. Membership of the Board in the terms of reference is also outdated.
- **Minutes -** only high level notes of Project Board meetings are kept therefore it is unclear if officers have the information they need for effective monitoring and adequate governance because they do not also attend the client meetings.
- **Lessons learnt -** the Project Team has prepared a case study document, setting out the lessons learnt and points of good practice. This is shared with other Councils who wish to engage with the Authority, but it has not been reported within the Authority. The intention is to share this after the first year of the new facility.
- **Non-financial benefits** – the main objectives were to increase participation in exercise and boost the economic vitality of the town. Although these are discussed in the monthly operations report from PHP, we recommend a full analysis is performed at the same time as presenting the lessons learnt/project debrief within the Authority to reflect on the future impact this may have on the existing contractual relationship.
- **Reporting –** the main issue in 2016/17 is that gym membership is significantly below the anticipated numbers. Our review of 2016/17 minutes for Executive, Scrutiny, Council, and Finance and Performance Committee has shown that only Scrutiny has been briefly made aware of the gym membership issue:

  *In relation to the leisure centre, it was noted that the centre was performing well, although gym memberships were lower than anticipated due to competition with other local facilities.*

# Current year findings (2 of 3)

Although no agreement has been made between PFP and the Authority that formal action is to be taken to address this issue, PFP have flagged that they wish for the Authority to help mitigate this risk "in the spirit of partnership". As such, we would expect Members to receive further detail regarding this risk and be made more aware that it is being monitored and managed appropriately.

## Implications

Governance arrangements over the leisure centre as a new facility operating as business as usual, rather than a project, are unclear.

Insufficient information for adequate and meaningful performance monitoring.

Best practice and lessons learnt identified from well governed projects are not shared on a timely basis with the wider Authority potentially leading to future projects suffering from risks that could have been avoided.

## Action Plan

1. Review and revise the Project Board Terms of Reference and membership to take account of the new facility now operating as business as usual.
2. Ensure full minutes are kept of each Project Board meeting, referencing items discussed, existing actions monitored, and new actions set.
3. A full lessons learnt and debrief for each project should be prepared by the immediate project team, and reported internally to management and Members within 3 months of project completion. This should also include a full analysis of the non-financial benefits achieved.
4. To ensure that Members have appropriate oversight of risks impacting the Authority, we would expect them to receive further detail regarding the potential risks and the associated impact, along with the mitigating actions that are being taken at an operational level.

*Responsible person/title:*

Simon Jones, Cultural Services Manager

*Target date:*

April 2017

# Current year findings (2 of 3)

**Management response**

1. The Project will end in May 2017 after the one year defects period and we will move towards monitoring. Following the review, the terms of reference have now been refreshed
2. Agree, this will be undertaken in Sept 2017, as per our internal project management framework. The CEO and Leader have both utilised the presentation and document in promoting our project to other LA's. This includes an article to the national LGA conference.

# Current year findings (3 of 3)

## *Leisure centre finances*

**Operating effectiveness**

3

***Finding rating***

| Rating | Low |
|---|---|

### Finding and root cause

Our observations in respect of the Leisure Centre finances are:

- **Financial analysis -** At present, gym membership is approximately 1000 people behind the original plan of approximately 3000 members and risks failing to deliver the planned health benefits to residents and reducing the available profit share with PFP. The financial risk to the Authority is currently reduced by the fact that PFP would have to suffer the loss associated with lower gym membership given the contractual terms. However, PFP have already started to ask the Authority for their assistance in mitigating this risk. As nothing has been formally requested, the Council have not prepared an analysis of the associated impact but should do so in anticipation of a formal request for support.

- **Profit share -** PFP must communicate their average surplus profit within 3 months of the end of each contract year. The Authority is entitled to 50% of any surplus. Monthly operations reports do not indicate the forecast surplus/deficit. For cash flow management purposes, it would be difficult for the Authority to plan adequately if it has no regular indication of potential surplus profit. Furthermore, although the new Leisure Centre facility has not been open for a year yet, PFP did start the contract to operate at the previous site from 1st April 2015. This means there has already been a full year of the contract, but no indication of PFP's average surplus profit/deficit for the year to 1st April 2016 has been received.

### Implications

Potential financial implications if PFP formally request assistance with the lack of gym membership. In the short term, this could be reduced income for the Authority from a lower management fee. If no solution is agreed, a longer term impact could be that PFP may not be able to continue to operate at this site.

The Leisure Centre fails to deliver the planned improved health benefits to the town’s residents.

Insufficient information to allow the Authority to effectively plan its cash flow management.

# Current year findings (3 of 3)

## Action plan

1. Begin to consider options available and acceptable to the Authority in the event that PFP formally request assistance in mitigating lower gym membership. Proactively preparing a sensitivity analysis in advance of a formal request should mean action can be taken without delay.

2. Consider activities the Council can undertake to support higher gym membership and be proactive in achieving a surplus.

3. Request that PFP share with the Authority its forecasted surplus profit/deficit for the year on at least a quarterly basis as part of the management information it already provides.

*Responsible person/title:*

Simon Jones, Cultural Services Manager

*Target date:*

April 2017

## Management response

The Council have not included any profit share into their budgeting arrangements. Should the authority find itself in a positon to receive a surplus payment then this would be treated as an income stream and would never be budgeted for, on the expectation that we would receive a surplus share.

# Appendices

# Appendix A: Basis of our classifications

## *Individual finding ratings*

**Critical**

- **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**

A finding that could have a:

- **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**

A finding that could have a:

- **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.

# *Appendix A: Basis of our classifications*

## *Individual finding ratings*

**Low**

A finding that could have a:

- **Minor** impact on the organisation's operational*;* 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**

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

***Report classifications***

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

| *Findings rating* | *Points* |
|---|---|
| Critical | 40 points per finding |
| High | 10 points per finding |
| Medium | 3 points per finding |
| Low | 1 point per finding |

| *Report classification* | *Option A* | *Points* |
|---|---|---|
| ● (green) | Low risk | 6 points or less |
| ● (yellow) | Medium risk | 7 – 15 points |
| ● (orange) | High risk | 16 – 39 points |
| ● (red) | Critical risk | 40 points and over |

# Appendix B: Terms of reference

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## Terms of reference

Estates and Assets

*Hinckley and Bosworth Borough Council*

*November 2016*

**To:** Malcolm Evans, Estates and Assets Manager

**From:** Richard Bacon, Head of Internal Audit

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# Background and audit objectives

This review is being undertaken as part of the 2016/2017 internal audit plan approved by the Audit Committee on 27 June 2016.

## Background and audit objectives

The Council has invested in numerous significant regeneration projects over a number of years to promote economic growth in the region. Whilst these projects are now completed the Council continues to monitor performance to ensure that the projects create the positive impact for new and existing businesses, landowners and residents for which they were originally intended.

The Council continues to face significant financial and reputational risks associated with these large developments with the ongoing challenge of realising the benefits from these capital investments.

Our review will focus on the performance of recent significant capital projects including the Crescent and Leisure Centre developments.

# *Audit scope and approach (1 of 2)*

### *Scope*

We will review the design and operating effectiveness of key controls in place relating to the specified development projects during the period from April 2016 to the date of audit fieldwork.

The sub-processes, and related control objectives included in this review are:

| Sub-process | Objectives |
|---|---|
| **Debrief and lessons learnt** | • The Council has quantified the final position of the capital project outturn<br>• The Council has undertaken a full debrief of the capital projects and identified lessons learnt to use with future projects of a similar nature |
| **Financial viability** | • Financial projections associated with the capital projects are being realised<br>• Detailed sensitivity analyses are available to assess current performance and future options<br>• Where financial projections are not being achieved the Council has fully evaluated the impact of these and put in place mitigating actions to address areas of financial concern |
| **Benefits realisation** | • Non-financial benefits projected are being realised following completion of the capital projects<br>• Where projections are not being achieved the Council has fully evaluated the impact of these and put in place mitigating actions to address areas of concern |
| **Reporting** | • Progress is reported to management on a timely basis<br>• Management information is adequate for effective governance and performance management |

# Audit scope and approach (2 of 2)

### *Limitations of scope*

The scope of our work will be limited to those areas outlined above. Our review will be performed in the context of the information provided to us. Where circumstances change the review outputs may no longer be applicable.

### *Audit approach*

Our audit approach is as follows:

- Obtain an understanding of the process for the selected developments through discussions with key personnel, review of systems documentation and walkthrough tests where applicable;
- Identify the key risks of the selected developments;
- Evaluate the design of the controls in place to address the key risks; and
- Test the operating effectiveness of the key controls.

# Internal audit team and key contacts

## Internal audit team

| Name | Role | Contact details |
|---|---|---|
| Richard Bacon | Head of Internal Audit | richard.f.bacon@pwc.com |
| Chris Dickens | Senior Internal Audit Manager | chris.dickens@pwc.com |
| Jodie Stead | Internal Audit Manager | jodie.a.stead@pwc.com |
| Catherine Bru | Internal Audit Team Member | catherine.j.bru@pwc.com |

## Key contacts – Hinckley and Bosworth Borough Council

| Name | Title |
|---|---|
| **Ashley Wilson** | Section 151 Officer |
| **Malcolm Evans** | Estates and Assets Manager |
| **Simon Jones** | Cultural Services Manager |
| **Matt Burns** | Senior Building Surveyor |

# *Timetable and information request*

| *Timetable* | |
|---|---|
| Fieldwork start | 13th December 2016 |
| Fieldwork completed | 6th January 2017 |
| Draft report to client | 20th January 2017 |
| Response from client | 27th January 2017 |
| Final report to client | 3rd February 2017 |

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request.
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

*Please note that if Hinckley and Bosworth Borough Council requests the audit timing to be changed at short notice and the audit staff cannot be deployed to other client work, Hinckley and Bosworth Borough Council may still be charged for all/some of this time. PwC will make every effort to redeploy audit staff in such circumstances.*

# *Appendix C: Limitations and responsibilities*

## *Limitations inherent to the internal auditor's work*

We have undertaken this review subject to the limitations outlined below:

### *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 is for the period specified only. Historic evaluation of effectiveness is not 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 changes; 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 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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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