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Internal audit annual report 2017/2018

*Hinckley and
Bosworth Borough
Council
May 2018*

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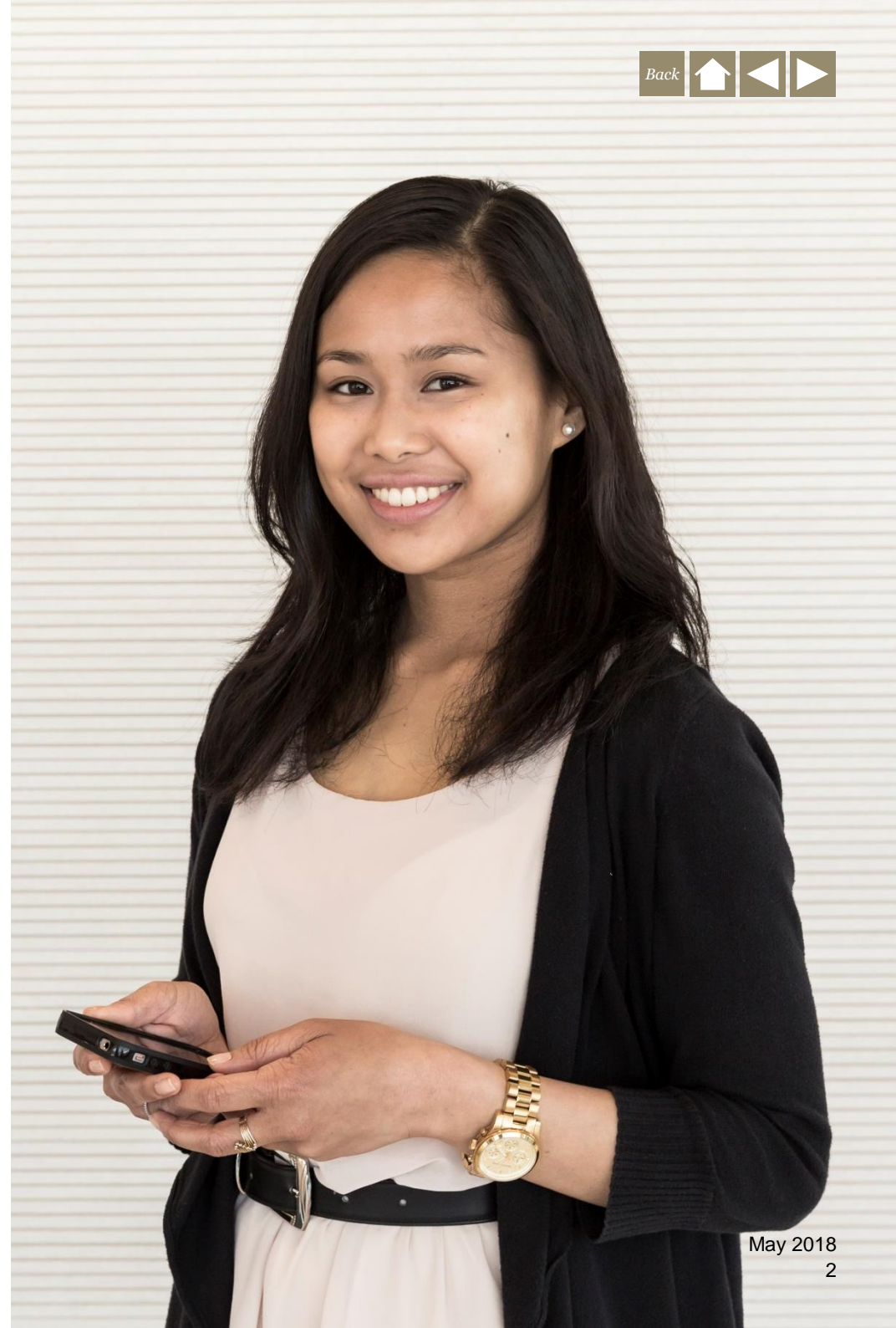
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Distribution list

For action: Ashley Wilson, Section 151 Officer

For information: Members of the Audit Committee



Executive summary

Introduction

This report outlines the internal audit work we have carried out for the year ended 31 March 2018.

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 125 days, of which 110 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.

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.



Executive summary

Opinion

Our opinion is as follows:

Generally satisfactory with some improvements required

Governance, risk management and control in relation to business critical areas is generally satisfactory. However, there are some areas of weakness or 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 or 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:

- All audits undertaken during the year;
- Any follow up action taken in respect of audits from previous periods;
- The effects of any significant changes in the organisation's objectives or systems;
- Any limitations which may have been placed on the scope or resources of internal audit;
- What proportion of the organisation's audit needs have been covered to date;
- 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.

Executive summary

Commentary

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

- We completed 10 internal audit reviews. This resulted in the identification of 5 medium and 18 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness;
- No critical or high risk findings were identified, which is an improvement on previous years where 3 high risk findings were identified; and
- We have continued to identify and reported to the Audit Committee the limited progress regarding updating our recommendation tracker, TrAction, to reflect the status of agreed actions from the prior years. Our follow up review work reviewed all medium and high risk rated recommendations made to ascertain whether action had been taken. Out of 26 recommendations, 9 have been implemented, 6 partially completed and 7 no response was received during the audit. 4 were followed up in other reviews.

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 and throughout the duration of our contract.

Summary of findings (1 of 2)

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:

Description	Detail
<p>Overview</p> <p>We completed 10 internal audit reviews. This resulted in the identification of 5 medium and 18 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness. No critical or high risk findings were identified.</p>	<p>The table in Internal Audit work conducted 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 a number of weaknesses that we consider should be reported in your Annual Governance Statement.</p>	<p>We are pleased to report that no high risk findings were identified, which is an improvement from the prior year. This improvement should be reflected in your Annual Governance Statement. We have not identified any other matters which are relevant to the 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 Internal Audit work conducted. The medium rated risks we found are:</p> <p>Legal Services:</p> <ul style="list-style-type: none"> Records management: The Council introduced a new method of collating information since June 2017, but there are still problems with this process. Any records from before 2012, when IKEN, the legal services case management system was introduced, are not scanned electronically. Only hardcopy documents are available and we identified physical agreements post 2012 which were not recorded on IKEN. Similar issues regarding completeness and visibility were identified in relation to the prosecution case files.

Summary of findings (2 of 2)

Description	Detail
<p>Other weaknesses</p> <p>Other weaknesses were identified within the organisation's governance, risk management and control.</p>	<p>HR Sickness and Absence:</p> <ul style="list-style-type: none"> Self Certification Forms are not returned to HR in a timely manner: The Self Certification Form states that "the Self Certification Form should be returned to the HR Team within 7 days of the employees return to work. In 7 out of 25 short term absences tested, these form were returned late. Step 1 meetings were not conducted in a timely manner: the policy does not formally define a time period in which a Step 1 meeting should be undertaken. From the testing performed these meetings were not being conducted, or the outcomes returned to HR, in a timely manner; <p>Management of Section 106 Agreements:</p> <ul style="list-style-type: none"> Finance reconciliation: There is a monthly meeting between the Compliance and Monitoring Officer and finance team to reconcile the financial records of amounts invoiced and spent with the underlying S106 documentation. We were unable to perform testing over this control as there is no evidence retained. <p>Housing Repairs:</p> <ul style="list-style-type: none"> Monitoring of purchased materials: The Council does not have a process to identify materials purchased for a job which is subsequently cancelled, or where there is a surfeit of material.
<p>Follow up</p> <p>During the year we have undertaken follow up work on previously agreed actions.</p>	<p>TrAction is the system the Council uses to record all internal audit findings and monitor progress in implementing recommended actions. We followed up on all medium and higher recommendations made in prior years to ascertain whether action had been taken. Out of 26 recommendations, 9 have been implemented, 6 partially completed and 7 no response was received during the audit. 4 were followed up in other reviews. The table in follow up work conducted shows the results.</p>

Summary of findings

Description	Detail
Good practice We also identified a number of areas where few weaknesses were identified and/or areas of good practice.	The following reviews were classified as low risk: <ul style="list-style-type: none">• Complaints Process• Food hygiene• Corporate Governance and Risk Management• Legal Services• Finance• Management of Section 106 Agreements• Environmental Health – Pest Control• Revenue and Benefits Partnership

Internal audit work conducted

Introduction

The table below sets out the results of our internal audit work and implications for next year's plan. The following page shows direction of control travel and a comparison of planned and actual internal audit activity.

Results of individual assignments

Review	Report classification	Number of findings			
		Critical	High	Medium	Low
Compliance - Complaints Process	Low	0	0	0	0
Compliance – Food Hygiene	Low	0	0	0	0
Corporate Governance and Risk Management	Low	0	0	0	2
Legal Services	Low	0	0	1	1
HR and Transformation	Medium	0	0	2	3
Finance*	Low	-	-	-	-
Management of Section 106 Agreements	Low	0	0	1	2
Housing Repairs	Medium	0	0	1	4
Environmental Health – Pest Control	Low	0	0	0	1
Revenues and Benefits Partnership	Draft – low	0	0	0	5
Total		0	0	5	18

* We have provided the Audit Committee with a quarterly report summarising the results of the testing performed. We are pleased to report that there has been a continuous improvement throughout the year. No findings were reported in the Q3 and Q4 reports.

Internal audit work conducted

Direction of control travel

Finding rating	Trend between current and prior year	Number of findings		
		2017/18	2016/17	2015/16
Critical	↔	0	0	0
High	↓	0	3	1
Medium	↓	5	13	14
Low	↑	18	17	22
Total	↓	23	33	37

Implications for management

It should be noted that the mix and focus of our internal audit plans have differed between years and therefore these results may not be directly comparable.

Internal audit work conducted

Comparison of planned and actual activity

Audit unit	Budgeted days	Actual days	Comments
Compliance	10	15	Compliance Food Hygiene review added to audit plan.
Corporate Governance and Risk Management	13	13	Actual days were in line with the original plan.
Legal Services	7	7	Actual days were in line with the original plan.
HR and Transformation	8	8	Actual days were in line with the original plan.
Finance	15	17	Scope of the Section 106 review extended.
Estates and Assets	10	0	Review removed from the plan.
Housing Options	8	12	Scope of the review extended.
Private Sector Housing	8	0	Review removed from the plan.
Strategic and Community Planning	8	0	Review removed from the plan.
Environmental Health	8	8	Actual days were in line with the original plan.
Revenues and Benefits Partnership	12	12	Actual days were in line with the original plan.
Prior year recommendations follow up	7	7	Actual days were in line with the original plan.
Project Management	8	8	Actual days were in line with the original plan.
Contingency	3	3	Actual days were in line with the original plan.
Total	125	110	

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 on all medium and higher 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	Number of findings	Status of agreed actions				
		Implemented	Partially completed	No response received	Not yet due	Followed up in another review
Building Control	3	2	1	0	0	0
Community Safety	1	1	0	0	0	0
Corporate Governance	1	0	0	1	0	0
Corporate Governance and Risk Management	2	0	0	2	0	0
Estates and Assets	4	0	1	3	0	0
Finance	1	1	0	0	0	0
Financial Systems	3	0	0	0	0	3 - Testing undertaken as part of the 17/18 review and matters raised in the Finance continuous audit 17/18 report
Housing Repairs Follow Up	1	0	1	0	0	0
Information and Cyber Security	4	1	3	0	0	0
Markets	1	0	0	1	0	0
Revenues and Benefits	2	1	0	0	0	1 - See current year review
Revenues and Benefits Partnership	2	2	0	0	0	0
Safeguarding	1	1	0	0	0	0
Total	26	9	6	7	0	4

Follow up work conducted

Summary

We have reported to the Audit Committee the limited progress regarding updating our recommendation tracker, TrAction, to reflect the status of agreed actions from the prior years.

All agreed actions were due at the date of the follow up audit. Where we are satisfied the actions were carried out, we summarised the findings as implemented. Where progress has been partly addressed we summarised as partially implemented. Some actions we received no response during the audit.

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.

Appendix 1: Limitations
and responsibilities

Appendix 2: *Opinion types*

Appendix 3: Basis of our
classifications

Appendix 4: *Performance of
internal audit*

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 1 April 2017 to 31 March 2018. 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.

The specific time period for each individual internal audit is recorded within section 3 of this report.

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.

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 not significant in aggregate to the system of internal control; and/or High risk rated weaknesses identified in individual assignments that are isolated 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 significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or High risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and A minority 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 in aggregate are pervasive to the system of internal control; and/or Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or More than a minority 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.






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	Points
● Critical risk	40 points and over
● High risk	16–39 points
● Medium risk	7–15 points
● Low risk	6 points or less



Appendix 3: Basis of our classifications

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 4: 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	-15	We have communicated changes to the audit plan to the Audit Committee throughout the year in our regular progress reports. We have tried to discuss the available days with management in order to understand where additional support can be provided.
Planning			
• % of audits with Terms of Reference	100%	100%	All completed audits have a terms of reference that has been agreed by management.
Fieldwork			
• % of audits with an exit meeting	100%	100%	All completed audits have had an exit meeting summarising the outputs from the review and identifying the next steps in terms of preparing a report. For all completed audits a draft report has been shared with management for comment with the option to discuss the report further.
Reporting			
• Draft reports issues promptly	100%	Partially met - We have tried to work with management and be flexible in terms of delivery, completion of on-site work and reporting during the year. However, due to issues on both sides this has resulted in reviews being delivered later than planned and resulting in overall delays to the expected completion of reviews against the plan.	
• Attendance at Audit Committee	100%	100%	Agreed with management that attendance at the September Audit Committee was not required as it was focused on the signing of the financial statements with external audit.
Relationships			
• Overall client satisfaction score	9/10	-	As yet no feedback has been requested.

Appendix 4: Performance of internal audit

Quality assurance improvement programme

Key Quality Assurance Systems	How this is applied
Global internal audit methodology, including working practices, documentation standards and software tools applied to all internal audits	<ul style="list-style-type: none"> All internal audits are conducted to minimum professional standards which include: <ul style="list-style-type: none"> Approval of terms of reference, including stakeholder “buy in” and involvement; Application of our global internal audit methodology; Standardised reporting formats agreed with you; and Key program steps that need to be completed on each assignment to comply with minimum quality assurance standards in line with the Public Sector Internal Audit Standards.
Regular internal audit training and development	<ul style="list-style-type: none"> We place great emphasis on developing and maintaining the skills of our people. We achieve this through a programme of regular management and technical training, attended by all our staff. This is supplemented by sector specific training. For the public sector, this includes: <ul style="list-style-type: none"> Internal training courses on internal audit with a public sector focus; National update seminars on, for example, risk management and governance; Weekly newsletter containing new and emerging issues in the public sector; and Distribution network for relevant internal and external documentation and publications.
Compliance with professional practice and ethical standards	<ul style="list-style-type: none"> Quality is further underpinned by teams of appropriately trained people with industry experience, supported where necessary by specialist skills drawn from other service areas across the firm. The majority of our staff are members of professional institutes and comply with ethical rules, technical standards and professional practice laid down by those bodies. This is supplemented by the Firm’s own professional practice and ethical standards.
Focus on staff performance and quality	<ul style="list-style-type: none"> All our auditors set performance objectives prior to conducting an audit assignment. A project appraisal form is then completed at the end of each assignment which covers both performance and overall behaviour. Should there be any problems the Engagement Manager and where necessary, Engagement Leader, will advise the staff member of any improvements that should be made in their performance.

Appendix 4: Performance of internal audit

Quality assurance improvement programme (continued)

Continuous communication with you throughout the audit	<ul style="list-style-type: none"> Key stakeholders are involved in developing terms of reference, which is approved by a client audit owner.
Customer feedback	<ul style="list-style-type: none"> To continue to develop our service, it is important that we understand the expectations of the council and receive feedback on our performance. The firm's quality control and assurance procedures additionally involve the use of an annual client satisfaction survey.
Key Performance Indicators	<ul style="list-style-type: none"> We agree with you Key Performance Indicators and make sure we as a team are meeting them, if not exceeding them. We will look to discuss and modify our Key Performance Indicators where appropriate.
Quality Assurance programme	<ul style="list-style-type: none"> We run an annual Quality Assurance programme in which an independent team of practice partners and staff review completed engagements to access compliance with our quality standards and regulatory requirements.

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 10 May 2016. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

If you receive a request under freedom of information legislation to disclose any information we provided to you, you will consult with us promptly before any disclosure.

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