

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
31 October 2012

From: Director of Resources

Subject: **INTERNAL AUDIT PROGRESS REPORT 2012/13**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1. The provision of Internal Audit is a statutory requirement (Accounts & Audit Regulations).
- 1.2 The Audit and Governance Committee approved a joint Internal Audit Plan, with Richmondshire District Council, at its meeting held on the 28 March 2012. The purpose of this report is to inform Members of the progress made to date in delivering the 2012/13 Internal Audit Plan and any developments likely to have an impact on the plan throughout the remainder of the financial year.

2.0 THE REPORT

- 2.1 Within the report there is a summary of progress made against the plan and a summary of the audit opinions for the individual audits completed thus far.
- 2.2 Veritau carried out its work in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.
- 2.3 There is no direct linkage to any of the Council's Priorities, as internal audit is a support service, which provides internal control and activity assurance to Directors on the operation of their services, and specifically to the Council's S151 Officer on financial systems.

3.0 CONCLUSION:

- 3.1 Veritau are making good progress in the delivery of the agreed internal audit plan and there are no significant delays anticipated. Thus far, **6** audits have been completed to final report stage out of **29**. This represents **21%** of the plan completed. Based on our work thus far, we are satisfied that an opinion of **Substantial Assurance** can be given. However, as the plan is still in progress, this opinion may change to reflect the findings emerging from audit reviews later in the year.

4.0 DECISIONS SOUGHT:

- 4.1 The Audit and Governance Committee is asked to consider the work undertaken by internal audit to date.

5.0 RISK ANALYSIS:

- 5.1 There are no risks associated with the recommendations in the report.

6.0 FINANCIAL IMPLICATIONS:

- 6.1 There are no financial implications associated with the recommendations in the report.

7.0 **LEGAL IMPLICATIONS:**

7.1 There are no legal implications associated with the recommendations in the report.

8.0 **RECOMMENDATIONS:**

8.1 It is recommended that Members note the work undertaken by internal audit in the year to date.

JUSTIN IVES

Background papers:

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Hambleton District Council

Internal Audit Progress Report 2012-13

Period to 30 September 2012

Audits Completed to 30 September 2012	
High Assurance	2
Substantial Assurance	3
Moderate Assurance	0
Limited Assurance	1
No Assurance	0

Emerging Audit Opinion

Substantial Assurance

Audit Manager:
Client Relationship Manager:
Head of Internal Audit:

John Barnett
Roman Pronyszyn
Max Thomas

Circulation List:

Member of the Audit and Governance Committee
Director of Resources (\$151 Officer)

Date: 30 September 2012

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the CIPFA Code of Practice for Internal Audit in Local Government (2006). In accordance with the Code of Practice, the Head of Internal Audit is required to regularly report progress in delivery of the Internal Audit Plan to the Audit and Governance Committee and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members approved a three year joint Audit Plan, with Richmondshire District Council, covering the period 2012/13 – 2014/15 at their meeting on the 28 March 2012. The total number of planned audit days for 2012/13 was 530. The performance target for Veritau is to deliver 93% of the agreed Audit Plan by the end of the year. This report summarises progress made in delivering the agreed plan.

Internal Audit Work Carried Out 2012/13

- 3 A summary of the internal audit reports issued is attached at **Appendix A**. This is the first progress report to be received by the committee during 2012/13.
- 3.1 Veritau officers are involved in a number of other areas relevant to corporate matters:
 - **Support to the Audit & Governance Committee;** this is mainly ongoing through our support and advice to Members. We assist by facilitating the attendance at Committee of managers to respond directly to Members questions and concerns over the audit reports and the actions that managers are taking to implement agreed recommendations.
 - **Contractor Assessment;** this work involves supporting the assurance process by using financial reports obtained from Dunn & Bradstreet (Credit Rating Agency) in order to confirm the financial robustness of contractors.
 - **Risk Management;** Veritau advise on the Council's Risk Management processes.
 - **Systems Development;** Veritau attend development group meetings in order to ensure that where there are proposed changes and new ways of delivering services, that the control environment is not overlooked which could lead to the Council being exposed.
 - **Investigations;** Special investigations into specific sensitive issues.
- 3.2 As with previous audit reports an overall opinion has been given for each of the specific systems under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in controls identified.
- 3.3 The opinions used by Veritau are provided for the benefit of Members below:

High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation

but there is scope for further improvement in the areas identified.

Moderate Assurance

Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.

Limited Assurance

Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.

No Assurance

Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

- 3.4 The following categories of opinion are also applied to individual actions agreed with management:

Priority 1 (P1) – A fundamental system weakness, which represents unacceptable risk to the system objectives and requires urgent attention by management.

Priority 2 (P2) – A significant system weakness, whose impact or frequency presents risk to the system objectives, which needs to be addressed by management.

Priority 3 (P3) – The system objectives are not exposed to significant risk, but the issue merits attention by management.

- 3.5 It is important that agreed actions are formally followed-up to ensure that they have been implemented. This is carried out throughout the year with appropriate testing being carried out.

- 3.6 In the period between April and September, inclusive, we have completed **6** out of **29** internal audit reviews to final report stage. A further **7** audits are in progress and due to be completed. This represents **21%** of the plan delivered to final report stage. Based on that work, our initial opinion is that a **Substantial Assurance** can be given. However, the audit plan is at an early stage of delivery and this opinion may be subject to change in the light of findings emerging from work carried out later in the year.

Table of 2012/13 audit assignments completed

Audit	Status	Audit Committee
<i>Material Systems (AC definition)</i>		
Payroll	Not Started	
Council Tax/NNDR	Not Started	
Benefits	Not Started	
Creditors	Not Started	
Debtors	Not Started	
Income (Cash Receipting) System	In Progress	
General Ledger	Not Started	
Treasury Management	Not Started	
Capital Accounting/Asset Management	Not Started	
<i>2012/13 Audit plan work</i>		
Performance Management/Data Quality	Not Started	
Equalities	Not Started	
Partnership Arrangements	Not Started	
Telephones (Land/Mobile)	Completed ~ Substantial Assurance	October 2012
Risk Management Process	Not Started	
Environmental Sustainability	Completed ~ Substantial Assurance	October 2012
Car Parking	In Progress	
ICT	Not Started	
Civil Contingencies Act (Business Continuity)	In Progress	
Housing Benefit Fraud	Not Started	
Housing Improvement Grants (Disabled Adaptations)	In Progress	
Sheltered Accommodation	In progress	
Bedale Leisure Centre	In Draft	
Vehicle Management	Completed ~ Substantial Assurance	October 2012
Depots – Stores	Completed ~ Limited Assurance	October 2012
Insurance	Completed ~ High Assurance	October 2012
Fees and Charges	In Progress	
Tax Management	Not Started	
Cemeteries inc Closed Church Yards	Completed ~ High Assurance	October 2012
Development Control	In progress	
<i>Follow Ups:</i>	None to date	

Summary of Key Issues from audits completed to 30 September 2012; not previously reported to Committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Telephones	Substantial Assurance	A review to ensure that the controls are in place to reduce the risks around the procurement, usage and monitoring of landline and mobile telephony.	13 September 2012	<p>Strengths The procurement and control over telephony at Hambleton is generally of a good standard, effectively managed by knowledgeable officers with only minor issues raised.</p> <p>Weaknesses The review highlighted that there are a very low level number of calls being made on the pay phones to justify the rental expenditure being incurred.</p> <p>Premium rate numbers are not blocked for use.</p>	<p>Management will review the need and cost effectiveness of payphones and take appropriate action to either retain or remove them. <i>Immediately</i></p> <p>Management will review the use of premium rate numbers and bar them, where appropriate. <i>Immediately</i></p>
Environmental Sustainability	Substantial Assurance	To ensure compliance with nationally and locally set targets in reducing the effect of climate change.	10 August 2012	<p>Strengths At Hambleton District Council all themes which fall under the Sustainability umbrella are well managed, with policies and procedures being up to date. The sustainability area of the Council's website has extensive information regarding the subject, which is available to the public, highlighting cost cutting schemes being carried out by the council in terms of energy saving.</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				<p>Weaknesses There were no key weaknesses identified.</p>	N/A
Vehicle Management	Substantial Assurance	To review the controls in place to manage the Council's fleet of vehicles.	1 October 2012	<p>Strengths Vehicles are operated and maintained in an efficient and effective manner supported by experienced officers</p> <p>Weaknesses The original contract for the upkeep of building maintenance vehicles expired in 2007, which are now maintained under an informal arrangement with the original contractor.</p> <p>Refresher training, for vehicle operatives, is not scheduled as per the training policy.</p>	<p>There have been initial meetings between myself, the transport manager and the procurement section. The issue of small vehicle maintenance at Hambleton and Richmondshire needs to be resolved, not just for building maintenance vehicles, though they have the larger fleet. No action will be taken to procure contracts for waste and street scene small vehicles until a decision has been made on the future of the shared service, which will be next year.</p> <p>There has been a change in the line management of the training officer and he now reports to John Proud, who has developed a training spreadsheet which alerts the user when the refresher training is due. <i>Immediate.</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Depots & Stores	Limited Assurance	To review the controls in place to manage the Council's 'operational' stores excluding housing maintenance.	16 August 2012	<p>Strengths The day to day management of the key controls at the Depot(s) has been shown to be effective, however, one key weakness was found which, had a detrimental effect on the assurance given. Generally there are adequate procedures in place for the control of the stores activities at the depots, with the functions being undertaken by experienced and conscientious officers.</p> <p>Weaknesses Stores Requisitions – From the sample tested (10), 80% of the stores requisition notes, at the Northallerton depot, had not been authorised by an appropriately delegated officer. Further investigation and discussion confirmed that the majority of requisition notes are not appropriately authorised.</p> <p>The diesel pump, at the Northallerton depot, is dated and does not configure correctly with the new (2011) electronic recording system that allows fuel to be issued. Management are aware of the fuel reading discrepancies, which require a manual 'clip' to be carried out and adjustment made within the General Ledger.</p>	<p>Controls will be put in place to ensure that the Storeman does not issue stock unless an authorised SRN is produced. <i>Immediately</i></p> <p>The feasibility of replacing or updating the current diesel pump will be investigated. <i>March 2013.</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				The CCTV camera produces poor quality images that will not be acceptable for use as evidence in the event of any unauthorised access. Following a recent incident, the police confirmed that the images were of a poor quality for prosecution purposes.	The feasibility of retaining, updating or replacing the CCTV cameras will be investigated. <i>March 2013.</i>
Insurance	High Assurance	To ensure that there is adequate and appropriate insurance cover and the controls to monitor the risks are in place.	16 August 2012	<p>Strengths The day to day control of Insurances has been shown to be effective with no key weaknesses found. There are adequate procedures in place for the identification of new assets and the determination of insurable risks, with the function being undertaken by experienced and conscientious officers.</p> <p>Weaknesses The Business Support Team Leader has the main role in administering insurance policies and handling claims. These procedures are not documented, and there is no guidance in place for other staff members if required.</p> <p>It was agreed by Cabinet in 2005 that Hambleton would 'self insure' a number of areas, such as income. This has not been</p>	<p>The Business Support Team Leader will document the key actions carried out to provide and renew insurance cover. <i>February 2013.</i></p> <p>Once the new Director of Resources is in position, a formal review of the current situation will be carried out</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				reviewed by Cabinet since ensuring the arrangement is still adequate.	February 2013.
Cemeteries & Crematoria inc Closed Church Yards	High Assurance	To obtain assurance that cemeteries are maintained in accordance with Schedule 26 to the Local Government act 1972 and that expenditure and income is adequately monitored and controlled.	31 August 2012	<p>Strengths The Service is running effectively, with the main key risks being controlled adequately.</p> <p>Weaknesses Income and expenditure relating to the Cemeteries service is not reconciled to the General Ledger to ensure said items are treated correctly.</p>	Income and expenditure relating to Cemeteries will be reconciled to the General Ledger on a monthly basis. 1 October 2012