

**HAMBLETON DISTRICT COUNCIL**

**Report To:** Audit, Governance and Standards Committee  
30 January 2013

**From:** Director of Resources

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

All Wards

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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 In the period between April and December inclusive, we have completed **12** out of **28** internal audit reviews to final report stage. In addition **1** draft report has been issued. This represents **43%** of the plan delivered to final report stage.
- 3.2 In only one instance was a final audit report was issued which gave a less than satisfactory opinion (Limited Assurance): Depots and Stores. We are satisfied that management are implementing appropriate action to address the weaknesses identified.
- 3.3 Based on that work, our initial opinion is that a **Substantial Assurance** can be given. However, this opinion may be subject to change in the light of findings emerging from work carried out 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 31 December 2012**

<b>Audits Completed to 31 December 2012</b>	
High Assurance	5
Substantial Assurance	5
Moderate Assurance	1
Limited Assurance	1
No Assurance	0

**Emerging Audit Opinion**

**Substantial Assurance**

**Audit Manager:** John Barnett  
**Client Relationship Manager:** Roman Pronyszyn  
**Head of Internal Audit:** Max Thomas

**Circulation List:** Member of the Audit and Governance Committee  
Director of Resources (S151 Officer)

**Date:** 31 December 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. 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 second 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, 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:

<b>High Assurance</b>	Overall, very good management of risk. An effective control environment appears to be in operation.
<b>Substantial Assurance</b>	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.

<b>Moderate Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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 December inclusive, we have completed **12** out of **28** internal audit reviews to final report stage. In addition **1** draft report has been issued. This represents **43%** of the plan delivered to final report stage.

3.7 In only one instance was a final audit report was issued which gave a less than satisfactory opinion (Limited Assurance): Depots and Stores. We are satisfied that management are implementing appropriate action to address the weaknesses identified.

3.8 Based on that work, our initial opinion is that a **Substantial Assurance** can be given. However, 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 to 31 December 2012

<b>Audit</b>	<b>Status</b>	<b>Audit Committee</b>
<b><i>Material Systems (AC definition)</i></b>		
Payroll	Not Started	
Council Tax/NNDR	In Progress	
Benefits	In Progress	
Creditors	In progress	
Debtors	In Progress	
Income (Cash Receipting) System	<b>Completed ~ Substantial Assurance</b>	<b>January 2012</b>
General Ledger	In Progress	
Treasury Management	Not Started	
Capital Accounting/Asset Management	In Progress	
<b><i>2012/13 Audit plan work</i></b>		
Performance Management/Data Quality	Not Started	
Equalities	In Progress	
Partnership Arrangements	Not Started	
Telephones (Land/Mobile)	<b>Completed ~ Substantial Assurance</b>	<b>October 2012</b>
Risk Management Process	Not Started	
Environmental Sustainability	<b>Completed ~ Substantial Assurance</b>	<b>October 2012</b>
Car Parking	<b>Completed ~ High Assurance</b>	<b>January 2012</b>
ICT	Not Started	
Civil Contingencies Act (Business Continuity)	<b>Completed ~ High Assurance</b>	<b>January 2012</b>
Housing Benefit Fraud	<b>Completed ~ High Assurance</b>	<b>January 2012</b>
Housing Improvement Grants (Disabled Adaptations)	Draft	
Bedale Leisure Centre	<b>Completed ~ Moderate Assurance</b>	<b>January 2012</b>
Vehicle Management	<b>Completed ~ Substantial Assurance</b>	<b>October 2012</b>
Depots – Stores	<b>Completed ~ Limited Assurance</b>	<b>October 2012</b>
Insurance	<b>Completed ~ High Assurance</b>	<b>October 2012</b>
Fees and Charges	In Progress	
Tax Management	In Progress	
Cemeteries inc Closed Church Yards	<b>Completed ~ High Assurance</b>	<b>October 2012</b>
Development Control	<b>Completed ~ Substantial Assurance</b>	<b>January 2012</b>
<b><i>Follow Ups:</i></b>	<b>Completed – see below for follow up action against ‘key weaknesses’.</b>	

Summary of Key Issues from audits completed to 31 December 2012; not previously reported to Committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Income/Cash Receipting	Substantial Assurance	To ensure that monies received are accounted for and allocated correctly within the accounts of the Authority.	14 December 2012	<p><b>Strengths</b> The cash receipting system is well developed and managed by by experienced and efficient officers. It is pleasing to note that the audit did not identify any key control weaknesses.</p> <p><b>Key Weaknesses</b> There is the provision to issue manual receipts to customers for payments made while the cash receipting system is offline or during cash-up. Whilst this is unavoidable when the system 'is down', system processes should be reviewed to ensure that the issuing of manual receipts is avoided when 'cashing-up'.</p>	To be reviewed as part of the cash receipting upgrade. <i>Immediate</i>
Car Parking	High Assurance	To provide assurance that the risks surrounding legislation and income within the car parking systems are minimised.	30 October 2012	<p><b>Strengths</b> The day to day management of off street car parking, in the district, has been shown to be effective with only a few weaknesses found.</p> <p><b>Key Weaknesses</b> Only minor issues raised.</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Civil Contingencies Act	High Assurance	To ensure compliance with the Civil Contingencies Act.	10 December 2012	<p><b>Strengths</b> The Senior Emergency Planning Officer at NYCC had liaised with officers and supervised the preparation of Business Continuity Plans for each section, which are accessible via the shared drive. However, in the context of the separation of some of the shared services, management are aware that these plans will need redrafting to reflect current arrangements and that all plans will need to be tested and appropriate training carried out and recorded. The risks around business continuity are recognised within the Strategic Risk Register.</p> <p><b>Key Weaknesses</b> No issues raised apart from the above.</p>	
Housing Benefit Fraud	High Assurance	To provide assurance that procedures and processes for the detection of fraud are sound and lawful.	14 December 2012	<p><b>Strengths</b> The 'systems' employed to control the risks around Benefit Fraud would seem to working efficiently, effectively managed by experienced officers who are all adequately trained in, or are currently undertaking 'PINS' training which is an accredited qualification for Civil Servants in benefit fraud. There are detailed in house</p>	



System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>procedures in place which are recognised by management to be out of date; however due to the potential changes to legislation from April 2013 the decision has been taken to wait and review them as part of the new arrangements.</p> <p><b>Key Weaknesses</b> There were no key weaknesses identified.</p>	
Bedale Leisure Centre	Moderate Assurance	To provide assurance that controls over income and expenditure are sound and that relevant legislation is adhered too.	4 December 2012	<p><b>Strengths</b> The leisure centre is generally efficiently and effectively managed by experienced staff. Processes reviewed within the audit didn't raise any significant concerns, however;</p> <p><b>Key Weaknesses</b> It was of concern that debtors invoices are largely raised through the Leisure Centre's accounting system and not through the Council's Sundry Debtors system. Monies are paid in through the centre's 'cash' income returns. By doing this, firstly, the Bedale LC (General Ledger) is not credited with the income until it is actually received instead of when the invoice is raised and secondly the Council's debt recovery procedure/systems are by-</p>	<p>The Councils corporate debtors procedure will be used when raising invoices and recovering income. <i>Implemented – confirmation received from Manager that this process will now be used.</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>passed with the risk of debt remaining outstanding. The Council's Financial Regulations and the Reception and Administration Procedures Rules are also contravened by adopting this approach. Because the Centre Manager issues the debtors invoices and also accounts for the payment, there is also a lack of 'segregation of duties'.</p>	
Development Control	Substantial Assurance	To provide assurance that controls around planning applications and fee income are sound.		<p><b>Strengths</b> The Development Management service is provided by experienced and efficient officers who are well aware of their roles and responsibilities.</p> <p><b>Weaknesses</b> The reconciliations between application income on the Uniform Planning System and the General Ledger system had not been undertaken during 2012/13.</p>	Regular reconciliations will be undertaken. <i>March 2013</i>

**Summary of Key Issues from audits previously reported to Committee**

	System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
	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><b>Strengths</b> 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><b>Weaknesses</b> 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>Implemented – phones taken out</i></p> <p>Management will review the use of premium rate numbers and bar them, where appropriate.</p> <p><i>F/U - Implemented, and input in the phone strategy.</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><b>Strengths</b> At Hambleton Distinct 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</p>	

	System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
					<p>schemes being carried out by the council in terms of energy saving.</p> <p><b>Weaknesses</b> There were no key weaknesses identified.</p>	
	Vehicle Management	Substantial Assurance	To review the controls in place to manage the Council's fleet of vehicles.	1 October 2012	<p><b>Strengths</b> Vehicles are operated and maintained in an efficient and effective manner supported by experienced officers</p> <p><b>Weaknesses</b> 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</p>

	System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
						<p>refresher training is due.</p> <p><i>F/U – Implemented.</i></p>
	Depots & Stores	Limited Assurance	To review the controls in place to manage the Council's 'operational' stores excluding housing maintenance.	16 August 2012	<p><b>Strengths</b> 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><b>Weaknesses</b> 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</p>	<p>Controls will be put in place to ensure that the Storeman does not issue stock unless an authorised SRN is produced.</p> <p><i>F/U – Implemented.</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 & Follow-Up
					<p>are aware of the fuel reading discrepancies, which require a manual 'dip' to be carried out and adjustment made within the General Ledger.</p> <p>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.</p>	<p>The feasibility of retaining, updating or replacing the CCTV cameras will be investigated. <i>March 2013.</i></p>
	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><b>Strengths</b> 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><b>Weaknesses</b> 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</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>

	System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
					<p>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 reviewed by Cabinet since ensuring the arrangement is still adequate.</p>	<p>Once the new Director of Resources is in position, a formal review of the current situation will be carried out <i>February 2013</i>.</p>
	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><b>Strengths</b> The Service is running effectively, with the main key risks being controlled adequately.</p> <p><b>Weaknesses</b> Income and expenditure relating to the Cemeteries service is not reconciled to the General Ledger to ensure said items are treated correctly.</p>	<p>Income and expenditure relating to Cemeteries will be reconciled to the General Ledger on a monthly basis.</p> <p><i>F/U – Implemented.</i></p>