

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
27 March 2013

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 It has been agreed with management to defer the Equalities audit, until the SLA with Richmondshire DC has been firmly established and resourced and to also defer the ICT work, for 2012/13. The IT service is currently being repatriated from the shared service with Richmondshire DC and it has therefore been agreed with management, that it would be more beneficial to use the 2012/13 day allocation with 2013/14 to give advice and assurance on the repatriation project.
- 3.2 Taking into account those plan amendments in para 3.1, in the period between April and February inclusive, we have completed **13** out of **26** internal audit reviews to final report stage. In addition **8** audits are at the draft report stage. This represents **50%** of the plan delivered to final report stage and **81%** to draft report stage.
- 3.3 In only one instance was a final audit report 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.
- 3.4 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, Governance and Standards 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: Internal Audit Progress Report 2012/13

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Hambleton District Council
Internal Audit Progress Report 2012-13
Period to 28 February 2013

Audits Completed to 28 February 2013	
High Assurance	6
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, Governance and Standards
Committee
Director of Resources (S151 Officer)

Date: February 2013

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, Governance and Standards 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**.
- 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:

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 It has been agreed with management to defer the Equalities audit, until the SLA with Richmondshire DC has been firmly established and resourced and to also defer the ICT work, for 2012/13. The IT service is currently being repatriated from the shared service with Richmondshire DC and it has therefore been agreed with management, that it would be more beneficial to use the 2012/13 day allocation with 2013/14 to give advice and assurance on the repatriation project.

3.7 Taking into account those plan amendments in para 3.6, in the period between April and February inclusive, we have completed **13** out of **26** internal audit reviews to final report stage. In addition **8** audits are at the draft report stage. This represents **50%** of the plan delivered to final report stage and **81%** to draft report stage.

3.8 In only one instance was a final audit report 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.

3.9 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 28 February 2013

Audit	Status	Audit Committee
<i>Material Systems (AC definition)</i>		
Payroll	In progress	
Council Tax/NNDR	Draft	
Benefits	Draft	
Creditors	Draft	
Debtors	Draft	
Income (Cash Receipting) System	Completed ~ Substantial Assurance	January 2013
General Ledger	Draft	
Treasury Management	Draft	
Capital Accounting/Asset Management	Draft	
<i>2012/13 Audit plan work</i>		
Performance Management/Data Quality	Not Started	
Equalities	Deferred to 2013/14	
Partnership Arrangements	In Progress	
Telephones (Land/Mobile)	Completed ~ Substantial Assurance	October 2012
Risk Management Process	Not Started	
Environmental Sustainability	Completed ~ Substantial Assurance	October 2012
Car Parking	Completed ~ High Assurance	January 2012
ICT	Deferred to 2013/14	
Civil Contingencies Act (Business Continuity)	Completed ~ High Assurance	January 2012
Housing Benefit Fraud	Completed ~ High Assurance	January 2012
Housing Improvement Grants (Disabled Adaptations)	Draft	
Bedale Leisure Centre	Completed ~ Moderate Assurance	January 2012
Vehicle Management	Completed ~ Substantial Assurance	October 2012
Depots – Stores	Completed ~ Limited Assurance	October 2012
Insurance	Completed ~ High Assurance	October 2012
Fees and Charges	Included with General Ledger Audit	
Tax Management	Completed ~ High Assurance	March 2013
Cemeteries inc Closed Church Yards	Completed ~ High Assurance	October 2012
Development Control	Completed ~ Substantial Assurance	January 2012
<i>Follow Ups:</i>	Completed – see below for follow up action against ‘key weaknesses’.	

Summary of Key Issues from audits completed to 28 February 2013; not previously reported to Committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Tax Management	Substantial Assurance	A review to ensure compliance with the VAT regulations as governed by the HMRC.	14 December 2012	<p>Strengths Officers with responsibility for accounting for VAT are experienced and have a good understanding of the risks and controls in this area.</p> <p>Key Weaknesses The intention to have nominated VAT Officer in place at both Councils, to offer guidance to Officers and to ensure written guidance covering the administration and implementation of VAT legislation is up to date has not been fully implemented due to shared services and workload.</p>	<p>Guidance will be put into place to ensure Officers have adequate information to account for VAT accurately. Adequate training will be provided for nominated VAT Officer(s). <i>Immediate</i></p>

Summary of Key Issues from audits 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>Strengths The cash receipting system is well developed and managed by experienced and efficient officers. It is pleasing to note that the audit did not identify any key control weaknesses.</p> <p>Key Weaknesses 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>Strengths 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>Key Weaknesses Only minor issues raised.</p>	

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Civil Contingencies Act	High Assurance	To ensure compliance with the Civil Contingencies Act.	10 December 2012	<p>Strengths 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>Key Weaknesses 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>Strengths 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.</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Bedale Leisure Centre	Moderate Assurance	To provide assurance that controls over income and expenditure are sound and that relevant legislation is adhered to.	4 December 2012	<p>There are detailed in house procedures in place which are recognised by management to be out of date; however due to the potential changes to the legislation from April 2013 the decision has been taken to wait and review them as part of the new arrangements.</p> <p>Key Weaknesses There were no key weaknesses identified.</p> <p>Strengths 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>Key Weaknesses 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</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
				recovery procedure/systems are by-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'.	
Development Control	Substantial Assurance	To provide assurance that controls around planning applications and fee income are sound.		<p>Strengths The Development Management service is provided by experienced and efficient officers who are well aware of their roles and responsibilities.</p> <p>Weaknesses 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. March 2013
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>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Environmental Sustainability	Substantial Assurance	To ensure compliance with nationally and locally set targets in reducing the effect of climate change.	10 August 2012	<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>Strengths 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 schemes being carried out by the council in terms of energy saving.</p> <p>Weaknesses There were no key weaknesses identified.</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. <i>F/U - Implemented, and input in the phone strategy.</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
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.</p> <p><i>F/U – Implemented.</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
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 'dip' to be carried out and adjustment made within the</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>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>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</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</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
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>insure' a number of areas, such as income. This has not been reviewed by Cabinet since ensuring the arrangement is still adequate.</p> <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>	<p>formal review of the current situation will be carried out February 2013.</p> <p>Income and expenditure relating to Cemeteries will be reconciled to the General Ledger on a monthly basis. <i>F/U – Implemented.</i></p>