

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
29 January 2014

From: Director of Resources

Subject: **INTERNAL AUDIT PROGRESS REPORT 2013/14**

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, Governance and Standards Committee approved the Internal Audit Plan 2013/14 at its meeting held on the 27 March 2013. The purpose of this report is to inform Members of the progress made to date in delivering the 2013/14 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 September, inclusive, we have completed **5** out of **18** internal audit reviews to final report stage. A further **3** audits are at draft report stage and **7** other audits are in progress. This represents **28%** of the plan delivered to final report stage and **44%** including draft reports. Based on that work, our initial opinion is that a **Substantial Assurance** can be given.

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:

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Hambleton District Council
Internal Audit Progress Report 2013-14
Period to 31 December 2013

Audits Completed to 31 December 2013	
High Assurance	1
Substantial Assurance	3
Moderate Assurance	0
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: 29 January 2014

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 the Internal Audit Plan 2013/14 at their meeting on the 27 March 2013. The total number of planned audit days for 2013/14 is 285. 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 2013/14

- 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 2013/14.
- 3.1 Veritau officers are involved in a number of other areas relevant to corporate matters:
 - **Support to the Audit Governance & Standards 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 **5** out of **18** internal audit reviews to final report stage. A further **3** audits are at draft report stage and **7** other audits are in progress. This represents **28%** of the plan delivered to final report stage and **44%** including draft reports. 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 2013/14 audit assignments completed

Audit	Status	Audit Committee
<i>Strategic Risk Register</i>		
Shared Service	In Progress	
Affordable Housing	Draft Report	
Local Development Framework	Draft Report	
Community Infrastructure Levy	Completed ~ High Assurance	January 2014
Savings Delivery	Draft Report	
Information Governance & Data Protection	Completed ~ Limited Assurance	October 2013
Performance Framework	Not Started	
<i>Fundamental/Material Systems</i>		
Council Tax/NNDR	Not Started	
Benefits	In Progress	
Creditors	In Progress	
Income/Receipting System	In Progress	
General Ledger	In Progress	
Treasury Management	In Progress	
Capital Accounting	Not Started	
<i>Regularity Audits</i>		
Equalities	Completed ~ Substantial Assurance	October 2013
<i>Technical/Project Audits</i>		
ICT	In Progress	
Workspace	Completed ~ Substantial Assurance	January 2014
<i>Contingency</i>		
- Licensing Charges	Completed ~ Substantial Assurance	October 2013
<i>Follow-Ups</i>		

Summary of Key Issues from audits completed to 31 December 2013; previously not reported

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Community Infrastructure Levy	High Assurance	The Community Infrastructure Levy allows local authorities in England and Wales to raise funds from developers undertaking new building projects in their area. The audit was to ensure that processes were in place for setting the correct levy.	10 October 2013	<p>Strengths The process for setting the CIL is being efficiently managed and is progressing in line with prescribed requirements.</p> <p>Key Weaknesses No key weaknesses.</p>	
Workspace	Substantial Assurance	<p>Within the Workspace Portfolio there are units situated on business parks throughout Hambleton which are available to let. The aim of the units is to help small businesses set up and then move forward.</p> <p>Through discussion, it was agreed that the most value could be added by identifying alternative methods of credit checking potential tenants. Due to the nature of them being start-up businesses, there are often no sets of accounts to check, and no company credit history.</p>	23 October 2013	<p>Regarding credit checks, no opinion has been given as it is the Council's decision which, if any, of the options suggested they decide to use – the most applicable one being the National Landlords Association.</p> <p>Strengths Regarding the controls in operation, it was found that the arrangements for managing risk were good with few weaknesses identified.</p> <p>Key Weaknesses There is a formal procedure for rent reviews, which culminates in a report taken to the Director of Customer Services for authorisation. A view will be taken by the Director and, as long as this is within their area of authority, rents may be</p>	<p>In the case that was examined, the request to amend the rents was in writing. It was the authorisation that was not; this will be adhered to in future to ensure a secure management trail.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				amended to reflect the market conditions. In the case reviewed, the amendments were agreed but the authorisation was only verbal rather than written.	

Summary of Key Issues from audits completed and previously reported

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Information Governance & Data Protection	Limited Assurance	To ensure compliance with the Data Protection Act 1998 and in particular, with the 'HMG Information Assurance Maturity Model and Assessment Framework (IAMM)'.	28 August 2013	Strengths Some assurance could be gained from the security of electronic data as the Council have strict network and system controls in place to ensure only authorised Officers can access confidential and sensitive information. In addition, only encrypted devices can be used for external storage and can only be obtained from the IT section, with management approval. Although system and network back ups have posed some significant issues recently, management have reacted accordingly and reduced the risks in this area by strengthening the back up process. Additionally the Council are in the process of updating their Data Protection policy to ensure compliance to the Data Protection Act 1998, this is to reflect the current	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				<p>working practices now that the shared service with Richmondshire DC is no longer in place.</p> <p>Key Weaknesses At present there is no Member involvement for Information Governance and therefore appropriate training has not been given. It is stated in the 'HMG Information Assurance Maturity Model and Assessment Framework' that there should be main board recognition on the importance of information, and board commitment to effective Information Management; at Hambleton this is not currently the case. In addition, it should be ensured that an appropriately trained Senior Information Risk Officer is allocated responsibility for information governance, with a delegated risk owner to assist in each Directorate; this should be clearly stated in all policies.</p> <p>Information Management training has not been carried out for a number of years, it is essential that Officers are adequately trained in this area to avoid inappropriate distribution of information, and sensitive data being stored, issued and disposed of incorrectly. Although the current</p>	<p>An Information Strategy and Action Plan has been written to address a number of key issues raised in this audit report and are due to go to Management Team for discussion and approval, these include actions to specifically address issues in the audit findings:</p> <ul style="list-style-type: none"> • the identification of key roles and responsibilities • training for Members (and officers) • a centralized information register is created indicating data owners and review dates • a programme of data quality checks to be introduced <p>1 November 2013</p> <p>An initial Corporate wide Data Protection training programme has been agreed and will be delivered by Veritau. This commences on the 19th September and will run on a number of sessions until November.</p> <p>A communication plan to raise</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				<p>policy is still in draft and training will be provided once the document is finalised, it is vital that this is done on a timely basis.</p> <p>Currently there is no contract in place for the disposal of confidential waste; the Improvement Manager issued a report to Management Team in February 2013, to address this issue however nothing has been actioned as a result of this. The report outlines the risks that are currently exposed to the Council by not having a contract in place. Currently waste is stored in a 'low security' skip, which is located outside the Council grounds, for up to six months. Although the skip is locked it is not impossible to gain access.</p> <p>The Document Management Policy, which is still in draft, does not include guidance relating to clear desk rules and the importance of sensitive information security, or guidance relating to data sharing with other Authorities</p>	<p>staff awareness of Information Security issues will commence in August 2013. <i>Update - Completed</i></p> <p>Ongoing revisionary and new starter training in Data Protection and wider Information Security will be delivered by ICT, with a delivery plan to be drawn up. <i>1 November 2013</i></p> <p>To meet the requirements identified in this audit and within those of the Fire Risk Assessment, the confidential waste skip is being upgraded to a more secure storage solution. The ongoing requirements for Confidential Waste removal are to be determined by end October. <i>Immediate Update - Completed</i></p> <p>The Information Strategy and Action Plan, also outlines a number of measures to resolve issues in the above findings:</p> <ul style="list-style-type: none"> • the identification of key roles and responsibilities • the requirements for a number of Policies to be

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				<p>and 3rd parties. In addition, the policy does not allocate responsibility for Information Governance.</p>	<p>reviewed/written to ensure a strong approach to Information Management within the Council</p> <ul style="list-style-type: none"> updated Document Management and Retention Policy to include electronic data <p>30 November 2013</p>
<p>Equalities</p>	<p>Substantial Assurance</p>	<p>A review to ensure that the Council is complying with the Equalities Act 2010.</p>	<p>27 August 2013</p>	<p>Strengths Although it is early days with the Equalities policy only being approved in April 2013, management are well aware of the work to be carried out to ensure that compliance with legislation and good practice is achieved and therefore the risks identified, mitigated.</p> <p>Key Weaknesses There is no system in place, within Human Resources, to monitor and report upon officer data to ensure that the Council is adopting the Equalities objectives and complying with policy when recruiting new staff or within the existing establishment. There is also no comparison of data carried out regionally or with industry standard data to ensure the Council is up to date with equalities and the Equalities Act 2010.</p>	<p>An appropriate process will be implemented for monitoring and reporting new starter and employee data to ensure corporate objectives are being achieved and the Council is compliant with the Equalities Act 2010.</p> <p>1 March 2014</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Licensing	Substantial Assurance	<p>A European Directive (from 2010) states that "charges which a Council imposes on applicants/licensees under an authorisation scheme must be proportionate and reasonable in the circumstances to the fees or costs payable under the provision of the scheme". Following High Court action against Westminster Council the Local Government Association briefing recommended that "Councils take the opportunity to ensure that all locally set licence fees are based on an up to date cost recovery approach which is established and regularly reviewed in a transparent manner that can be understood by both businesses and residents".</p> <p>The review was to ensure that licence fee setting arrangements within HDC are compliant with the European Directive and UK legislation.</p>	19 August 2013	The Council is already in the process of ascertaining the cost of each type of licence in order that they are an accurate representation of the cost of work involved.	