

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
25 July 2017

From: Director of Finance (s151 officer)

Subject: **INTERNAL AUDIT ANNUAL REPORT 2016/17**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1. The work of internal audit is governed by the Accounts and Audit (England) Regulations and relevant professional standards. The council has formalised its arrangements for internal audit within the Audit Charter.
- 1.2. In accordance with chapter 5 of the council's Audit Charter, 'The Head of Internal Audit is required to provide an annual report to the Audit, Governance and Standards Committee. The report will be used by the Committee to inform its consideration of the Council's annual governance statement.'
- 1.3. The annual report summarises the outcomes of audit work undertaken in 2016/17. The report provides an opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.

2.0 THE REPORT

- 2.1 The results of completed audit work have been reported to relevant officers during the year. In addition summaries of all finalised audit reports have been presented to this committee as part of regular monitoring reports. Details of the audits finalised since the last report to this committee in March 2017 are included in Appendix 2 to the supporting report.
- 2.2 Veritau has completed all audit fieldwork work and has issued all expected reports to management. All areas reviewed have been finalised with final reports and future actions agreed.
- 2.3 The overall opinion of the Head of Internal Audit on the governance, risk management, and control framework operating in the Council is that it provides Substantial Assurance. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion. The Head of Internal Audit has report that in his opinion there are no significant weaknesses in controls that need to be considered for inclusion in the Annual Governance Statement.
- 2.4 As highlighted in Appendix 1 there has been a range of assurance levels reported during the year. One report concluded as High Assurance, six reports as Substantial Assurance, eight reports as Reasonable Assurance, one as Limited Assurance and three reports had no opinion. In completing work in 2016/17 Internal Audit have reviewed new risk areas or some areas to a greater depth to help further improve aspects of Council operations. The scope of agreed work is a good reflection of the collaborative working between management and Internal Audit and the focus on risk areas for improvement. The scope of the work and the nature of the findings underpinning the 2016/17 work, plus the wider knowledge of the control environment are taken into account when the Head of Internal Audit provides his overall opinion on the governance, risk management, and control framework operating in the Council.

- 2.5 Veritau follow up previous findings to ensure the underlying control weaknesses are addressed. No additional weaknesses were found when completing that work in 2016/17.
- 2.6 Veritau has carried out its work in 2016/17 in accordance with the Public Sector Internal Audit Standards. Internal quality assurance procedures are undertaken on the work undertaken. In addition an external assessment of Veritau's arrangements was undertaken in 2014 by the South West Audit Partnership. The outcome from the review demonstrated that the service provided by Veritau conformed to the International Standards for the Professional Practice of Internal Auditing.

3.0 LINK TO COUNCIL PRIORITIES

- 3.1 The work of internal audit supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping support the council to become a more effective organisation.

4.0 RISK ASSESSMENT

- 4.1 There are no risks associated with this report.

5.0 FINANCIAL IMPLICATIONS:

- 5.1 There are no financial implications associated with this report.

6.0 LEGAL IMPLICATIONS:

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

7.0 EQUALITIES AND DIVERSITY ISSUES:

- 7.1 There are no equalities or diversity issues associated with the report.

8.0 RECOMMENDATIONS:

- 8.1 Members are asked to:-

- (a) note the results of the audit work undertaken in 2016/17; and
- (b) accept the opinion of the Head of Internal Audit on the adequacy and effectiveness of the authority's internal control environment.

LOUISE BRANFORD WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None

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Hambleton District Council
Internal Audit Annual Report
2016/17

Audit Manager: Stuart Cutts
Head of Internal Audit: Max Thomas

Circulation List: Members of the Audit, Governance & Standards Committee
Director of Finance (s151 officer)

Date: 30 June 2017

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant PSIAS standard (2450) states that the Chief Audit Executive (CAE)¹ should provide an annual report to the board². The report should include:
 - (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
 - (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
 - (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)
 - (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
 - (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
 - (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme
- 2 During the year to 31 March 2017 the Authority's internal audit service was provided by Veritau Limited.

Internal audit work carried out in 2016/17

- 3 During 2016/17, internal audit work was carried out across the full range of the council's activities. The main areas of internal audit activity included:
 - **Financial systems** – Work in this area provides assurance to the council on the adequacy and effectiveness of financial system controls. This helps support the work of the external auditors and provides assurance to the Authority that the risk of loss is minimised.
 - **Performance and Improvement** – to help provide support on data quality and to help drive continuous improvement.
 - **Operational Systems** – providing assurance on operational systems and processes which support service delivery.
 - **Governance and Risk Management** – providing assurance on governance arrangements and systems to manage risks to the achievement of corporate objectives.
 - **General Advice and Support** – We provide regular advice and support to officers on a range of specific business and internal control issues. These

¹ The PSIAS refers to the Chief Audit Executive. This is taken to be the Head of Internal Audit.

² The PSIAS refers to the board. This is taken to be the Audit and Performance Review Committee.

relationships help to provide 'real time' feedback on areas of importance to the Council.

- **Follow up of previously raised findings** - it is important that agreed actions are followed up to ensure that they have been implemented. Veritau follow up agreed actions on a regular basis during the year taking account of the timescales previously agreed with management for implementation. Our work shows that generally, good progress has been made by management during the year to address previously identified control weaknesses. The one area to highlight where progress has been limited has been on Strategic Asset Management which is referred to in appendix 2 to this report.

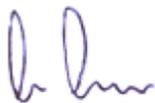
- 4 Appendix 1 provides a summary of the audit work carried out in the year, and the opinions given for each completed audit. Work has been reported to this committee during the course of the year as part of regular monitoring reports. Details of work not previously reported to the committee are included in appendix 2. The opinions and priority rankings used by Veritau are detailed in appendix 3.

Compliance with Professional Standards

- 5 The work of internal audit has been undertaken in accordance with the PSIAS.
- 6 Veritau maintains a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. Quality assurance arrangements include ongoing operational procedures, annual internal self assessment against the PSIAS, and periodic external assessment. Further details on the QAIP and the outcomes of the quality assurance process are provided in **appendix 4**.

Audit Opinion and Assurance Statement

- 7 The overall opinion of the Head of Internal Audit on the governance, risk management, and control framework operating in the council is that it provides **Substantial Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion. There are also no significant control weaknesses which, in the opinion of the Head of Internal Audit need to be considered for inclusion in the Annual Governance Statement.



Max Thomas
Director and Head of Internal Audit
Veritau Ltd

30 June 2017

Audit	Status	Assurance Level	Audit Committee
Director of Finance (s151 Officer)			
Revenues and Benefits			
Council Tax and NNDR	Final Report	Substantial Assurance	March 2017
Housing Benefits	Final Report	High Assurance	July 2017
System Access Controls	Final Report	Reasonable Assurance	July 2017
Corporate Finance			
IDEA data analytics and data matching	Completed	-	
Sundry Debt Recovery	Final Report	Reasonable Assurance	July 2017
Creditors	Final Report	Substantial Assurance	July 2017
Income – Strategic collection and charging	Final Report	Reasonable Assurance	March 2017
Payroll	Final Report	Substantial Assurance	January 2017
Performance and Improvement			
Performance Improvement and Data Quality	Final Report	Substantial Assurance	July 2017
Risk Management	Final Report	Reasonable Assurance	July 2017
Projects			
Fraud and Corruption	Final Report	No opinion	July 2017
Strategic Asset Management	Final Report	Reasonable Assurance	July 2017
Purchase to Pay	Deferred	-	-
Payment Card Industry Data Security Standards (PCI DSS)	Deferred	-	-
Director of Leisure and Environment			
Leisure Centres	Final Report	Substantial Assurance	January 2017
Closed Circuit Television (CCTV)	Final Report	Substantial Assurance	July 2017
Environmental Health	Final Report	Reasonable Assurance	January 2017
Business Continuity	Final Report	No opinion	July 2017
Disaster Recovery	Final Report	No opinion	July 2017
Director of Law and Governance			
Strategic Training	Final Report	Reasonable Assurance	March 2017
Contract Management – Training	Completed		
Contract Management – Contracts Register	Final Report	Reasonable Assurance	July 2017
Director of Economy and Planning			
Community Infra- Structure Levy	Final Report	Limited Assurance	July 2017
Follow-Ups	Completed		

Summary of key issues from finalised 2016/17 audits not previously reported to committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Housing Benefits	High Assurance	The audit reviewed the controls and processes for calculating and paying housing benefits.	June 2017	<p>Strengths The Benefits service has suitable systems to process and record new claims, changes in circumstances, staff performance monitoring, payment of benefit and production of the annual subsidy return. Regular reconciliations to the council's general ledger and council tax systems are completed. Reviews of high risk cases are completed and electronic methods of contacting claimants have also been introduced.</p> <p>Areas for improvement Some cases with varying income had not been reviewed in the previous 12 months. If these cases are not regularly reviewed, over and under payments could potentially accrue.</p>	In July 2016 the Council began to review what it considered to be High Risk claims to inform a strategy for longer term reviewing of cases. So the Council has been increasing coverage of varying income cases. The intention is to review all cases where the financial aspect of the claim is based upon earnings and for this to be fully up and running by the end of 2017.
Sundry Debt Recovery	Reasonable Assurance	<p>We reviewed the procedures and controls for Sundry Debt Recovery and debt write off to ensure:</p> <ul style="list-style-type: none"> Procedures for sundry debt recovery were embedded and efficient Debt recovery timescales are achieved. Performance indicators are reflective of the new policy and are achievable for the authority. An effective write-off policy was in place that was accessible, 	June 2017	<p>Strengths The Corporate Debt Policy was updated in 2016. Training on the new policy was given to all relevant officers, to help improve awareness and understanding. We found the policy was accessible and clear.</p> <p>Areas for improvement The audit found evidence elements of the debt recovery process were inefficient. Some debts had become uneconomic to pursue, but there was the repeated use of the same (unsuccessful) recovery methods, and the debts were not being considered for write off.</p>	<p>A review of the process for authorising write offs will be undertaken. This review is to be completed before the end of the year.</p> <p>Processes for identifying debts recommended to be written off will also be reviewed. This will include improvements to standard recovery letters and development of processes to ensure the full range of recovery action is taken.</p>

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		<p>clear and being followed.</p> <p>The audit focused on the procedures and controls for cases of recovery for Sundry Debt only. We did not include a review of Council Tax or Housing Benefit debt recovery.</p>		<p>We also saw some debts recommended for write off which were not being written off in line with the Corporate Debt Policy. There were no standard procedures for producing lists of debts recommended for write off. This led to substantial delays between debts being proposed for write off and authorisation for write off taking place.</p> <p>First reminder letters and final notice letters were not always being sent to debtors within the timescales stated in the corporate debt policy, which delays the debt recovery process.</p> <p>Currently some performance indicators are not being achieved, due to the data being new and the targets still being developed.</p>	<p>This work is planned to be completed by the end of September 2017.</p>
Systems Access Controls	Reasonable Assurance	<p>Ensuring access to data is restricted to authorised persons is of vital importance. Managing user privileges is also recognised as one of the ten steps to information security.</p> <p>The purpose of this audit was to provide assurance to management that procedures and controls over the Housing Revenues and Benefits system (iWorld) ensured access to data is restricted to authorised users.</p> <p>We reviewed areas such as user management, password protocols and event logging policies.</p>	June 2017	<p>Strengths</p> <p>We had originally planned to also cover work on General Network Access controls. However when starting the work we saw the Council had very recently subject to a positive Public Sector Network (PSN) review which confirmed good arrangements were in place. We then re-focused our work to review the controls over the Housing Revenues and Benefits system (iWorld).</p> <p>Areas for improvement</p> <p>We have highlighted six areas on the iWorld system where arrangements could be further improved</p>	<p>All six recommendations were agreed. Four areas will all be completed by the end of 2017, with the two more strategic findings planned to be completed by April 2018.</p>
Creditors	Substantial Assurance	<p>We reviewed the procedures and controls within the creditor payments system that ensure:</p> <ul style="list-style-type: none"> Invoices are paid in a timely 	April 2017	<p>Strengths</p> <p>Invoices are required by regulation to be paid within 30 days unless they are subject to a dispute from the supplier. We saw invoices paid in a</p>	<p>Refinements to the bank account checking process and the separation of duties have been identified and</p>

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		<p>manner and are appropriately authorised.</p> <ul style="list-style-type: none"> • Duplicate creditors and payments are prevented and identified if they occur. • Payments are made only for goods and services that have been appropriately ordered and received. • Changes to the bank accounts of suppliers are made in accordance with Council procedures and good practice. 		<p>timely manner. Targets for payments not paid within both 20 days and 30 days were being met.</p> <p>Controls to ensure goods and services have been appropriately ordered and received were working effectively.</p> <p>Data analysis software was used to check whether there were any duplicate creditors on the creditors system, or whether any duplicate payments had been made. No issues were found.</p> <p>Areas for improvement Improvements could be made in respect of the procedures for checking bank account changes. NB: Our sample testing of bank changes found no incorrect changes to bank details of suppliers.</p> <p>For a small number of transactions (of a specific type) we saw the same member of staff performed the role of originator and authoriser when processing the invoice for payment. It is good practice to avoid having the same originator and authoriser wherever practically possible.</p>	<p>were planned to be in place by the end of June 2017.</p>
Performance Improvement and Data Quality	Substantial Assurance	<p>The purpose of this audit was to provide assurance to management that procedures and controls within the system ensured that:</p> <ul style="list-style-type: none"> • Performance indicators were relevant, accurate and enable the Council to improve in key areas • Benchmarking was being used where appropriate, to help challenge and improve performance 	June 2017	<p>Strengths We concluded all Council Plan targets/ performance indicators were relevant and linked to the challenges the Council will face.</p> <p>From the survey responses and discussions with officers we saw some departments where benchmarking is being used effectively. For example Leisure, Waste and Street Scene, Customer Services, Council Tax and Housing Benefit.</p> <p>Areas for improvement There is no formal corporate approach or strategy</p>	<p>A paper will be taken to Management Team on benchmarking to raise awareness and to help form a view as to whether the Council corporately wants to adopt a benchmarking approach, including a corporate benchmarking strategy.</p> <p>Scrutiny Committee on 29 June 2017 also expressed an interest in Council</p>

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		As part of this work we undertook a survey of service departments to establish the extent to which benchmarking is embedded and used in a meaningful way.		which sets out how to use benchmarking at the Council. Consequently arrangements may not be as defined as they could be. The Council should explore the use of benchmarking, and consider whether this can be undertaken in a more structured and beneficial way.	Officers further investigating the benefits of the use of benchmarking. An update will be provided to Scrutiny Committee in due course. We anticipate to have fully considered this finding by the end of October 2017.
Risk Management	Reasonable Assurance	<p>The Public Sector Internal Audit Standards require: 'The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes'.</p> <p>Our work since 2014/15 has focused each year on different risk management areas. In 2016/17 we covered an essential area for the delivery of effective risk management outcomes; the quality of the 'risk reduction actions' highlighted and undertaken by officers. The management of risks requires defined, measured, effective and documented actions for the process to help reduce risks to an acceptable level.</p>	June 2017	<p>Strengths Management generally understand the benefits of risk management, and can apply the framework appropriately when managing risks within their service areas. The Performance and Improvement Officer coordinates the update of the operational, strategic and project risk registers and these are reviewed on a quarterly basis. Regular meetings with service managers are held.</p> <p>Most of the actions from the previous year's audit (which focused on risk identification) have been implemented, including the introduction of a more complete strategic risk register and project risk registers.</p> <p>Areas for improvement The risk register is a relatively static document with little evidence of risks and controls changing, being updated or progress on implementing controls being reported.</p> <p>Some actions in the risk register are brief and vague with limited up to date information on progress. Timescales for completion of actions and more frequent updating of the register would help provide a more detailed picture of the effectiveness of the risk management actions.</p>	<p>Further training is to be provided to service managers, heads of service and the management team. This training will help to ensure all officers are engaged with the risk management process and all have an understanding of the Council expectations. We plan to complete the training by 30 September 2017.</p> <p>The risk register will be taken to management team on a quarterly basis to enable risks to be more actively managed by reviewing sections of the register in increased detail at different times during the year.</p> <p>A risk management task and finishing group for senior management and service managers will be</p>

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				<p>Risks are identified and managed by risk owners but are not subject to review or challenge from other officers, or Management. As risk identification can be subjective, it could be beneficial to discuss new and emerging risks with other officers.</p> <p>Although understanding and awareness of identifying risks has improved since last years work, there is some improvement that can be made. Some managers feel they lack knowledge and understanding when identifying risks so may not always be capturing all relevant areas.</p> <p>We also suggested improvements to the current way of scoring risks to help provide a better insight into effective management of those risks.</p>	<p>explored. This group would help discussion and consideration of risk management matters.</p> <p>We will also consider any relevant changes that may be required to our risk management framework.</p>
Fraud and Corruption	No opinion	<p>In 2014, CIPFA published a Code of Practice on managing the risks of fraud and corruption. The Code provides a high level set of principles that can be applied to any public sector organisation.</p> <p>The audit reviewed counter fraud arrangements at the council against the five principles contained in the CIPFA Code of Practice (and the detailed guidance notes) which are:</p> <ul style="list-style-type: none"> • responsibility of the governing body for countering fraud and corruption is acknowledged • relevant fraud and corruption risks are identified • an appropriate counter fraud and corruption strategy has been 	June 2017	<p>The management team at the council take fraud matters seriously. The Council has a Fraud and Recovery team leader in post that is responsible for working in partnership with other bodies such as DWP and Veritau.</p> <p>However at the time of our work the council did not have a 'Counter Fraud Strategy'. The Council had also not recently reviewed fraud and corruption policies to ensure they were up to date.</p> <p>The CIPFA Code of Practice highlights the benefit of an annual fraud risk assessment governed by a formal risk methodology. The risk assessment exercise is best supported by work such as fraud risk workshops in departments, comparing risks with other similar organisations and involving specialists to help conduct the fraud risk review. The Council has not completed an annual fraud risk assessment.</p>	<p>The Director of Finance (s151 officer) is taking forward a plan of action to address all of the weaknesses highlighted in the report and to work towards compliance with the CIPFA Code of Practice on managing the risks of fraud and corruption.</p> <p>A Counter Fraud Strategy has already been drafted.</p> <p>The Council is using counter fraud specialists from Veritau to help deliver the required improvements.</p>

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		<p>developed and implemented</p> <ul style="list-style-type: none"> resources are provided to implement the strategy action is taken in response to fraud and corruption. <p>It is important councils tailor their approach to implementing the principles and make the best use of available resources.</p>		The investigation procedure of the Council is out of date and in need of review. There has also been little counter fraud training undertaken recently by the Council.	
Strategic Asset Management	Reasonable Assurance	<p>Effective Asset Management can enable the Council to maximise the potential of the assets that it holds and uses to deliver services. High level Asset Management strategies and associated plans, and policies and procedures should help to provide the framework to deliver effective and strategic asset management. Embedding strategic asset management is a challenge for any organisation</p> <p>An audit of Strategic Asset Management was finalised in May 2015. The work highlighted three specific areas for improvement with the Councils asset management framework. The report gave an overall Reasonable Assurance opinion. The work this year has assessed the progress made in progressing improvements to asset management.</p>	June 2017	<p>Strengths</p> <p>The Director of Finance (s151 Officer) has a clear view of where the current weaknesses are, and the steps required to further develop arrangements. A report in April 2017 was submitted by the Director of Finance (s151 Officer) to the capital working group, and management team. The report highlighted the issues surrounding strategic asset management and how the Director of Finance (s151 Officer) intends on improving the current arrangements. The Council is now recruiting an Asset Manager to help lead the strategic direction for the Council. This role will bring more knowledge and expertise to the department and will ultimately lead on the improvement of asset management.</p> <p>Areas for improvement</p> <p>Little progress has been made to address the matters from the previous report. To-date, none of the issues raised in the May 2015 have been fully completed. To help structure future actions to take forward the issues from our report then we provided a revised Action Plan in appendix 1 of this years report and new target deadlines have been agreed.</p>	<p>Introducing the strategic and systemic changes to the Council's strategic management of assets was always likely to take time. The recent work, including the report, provides the Council with a plan and timetable to take our arrangements forward.</p> <p>We anticipate the findings from the report will be fully addressed by June 2018.</p>

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Closed Circuit Television (CCTV)	Substantial Assurance	<p>Closed Circuit Television (CCTV) systems are installed to cover public areas, council property and car parks in Northallerton, Thirsk, Stokesley and Bedale. The Council CCTV team has recently been restructured.</p> <p>CCTV is heavily governed by legislation and best practice. It is important the Council follows the 'Surveillance Camera Code of Practice' issued by the Home Office. Other relevant laws include the Human Rights Act 1998, The Data Protection Act 1998 and Freedom of Information Act 2012.</p> <p>We review CCTV to ensure that:</p> <ul style="list-style-type: none"> The code of practice and working practices were appropriate, effective and the Council are achieving their CCTV objectives. Appropriate controls are in place to ensure compliance to legislation, including storage of data. 	May 2017	<p>Strengths Hambleton's objectives generally meet the requirements of the code of practice set out by the ICO and the Home Office.</p> <p>The CCTV control room was secure and controlled effectively. The room has appropriate security methods in operation</p> <p>There is an established procedure in place for third parties to request CCTV footage. The Council have a service level agreement in place with the Police for reviewing CCTV footage to assist with accidents. This agreement was most recently reviewed in March 2017. Reviews are currently ongoing within the service regarding the fees between Hambleton and Insurance companies, who require the service for accidents. Previously this service has been provided by the Council free of charge but the Council is considering changes to this practice.</p> <p>Areas for improvement We highlighted a small number of ways the local Code of Practice and procedures could be improved. Both appeared not to have been reviewed for a number of years. The current manual includes a vast amount of information and day to day procedures are not always documented in a concise and readable way.</p>	The Council's local Code of Practice and CCTV procedures are being reviewed, with changes being expected to be made by the end of September 2017.
Business Continuity	No opinion	In December 2014 a full audit on Business Continuity was completed. The report highlighted a number of significant weaknesses in Council arrangements and gave an overall Limited Assurance opinion.	June 2017	In recent months good progress has been made by the Council in addressing recommendations from the December 2014 report. The work undertaken by the Director for Leisure and Environment (DLE) includes an action plan (based on the actions recommended by the audit) with revised timescales in place for implementation of	Whilst none of the matters have been fully completed Management have plans in place to address all weaknesses with deadlines for completion by September 2017.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		In March 2016 we followed up work on the Business Continuity report. Very limited progress has been made in addressing the matters contained in the December 2014 report. Due to the lack of progress we recommended the weaknesses were such they required inclusion as areas for improvement in the June 2016 Annual Governance Statement.		all actions. The DLE is responsible for ensuring the action plan is completed, with management team also being responsible for reviewing progress of the delivery of the plan on a monthly basis.	
Disaster Recovery	No opinion	<p>ICT disaster recovery (DR) is the process of recovering information technology systems and services in the event of a system failure. DR forms part of wider business continuity planning intended to restore normal business functionality as quickly as possible. Effective IT disaster recovery plans should provide for a structured and timely recovery of services in the event of a disaster.</p> <p>Business Continuity and DR are closely linked. Given the previous lack of progress made by the council with business continuity planning, we could only carry out an interim assessment of DR in 2016.</p>	June 2017	<p>Extensive work has been carried out over the past year to ensure that Disaster Recovery arrangements are effective and in place. Roles and responsibilities have been outlined in the DR Plan for communications during a disaster and restoring IT functionality. DR testing has also been undertaken.</p> <p>At the time of the previous report no disaster recovery plans were in place. ICT have now put an overall Disaster Recovery Policy and action plan in place. This will eventually feed into the Business Continuity plans once they are completed.</p>	-
Contract Management – Contracts Register	Reasonable Assurance	<p>Hambleton District Council has a range of contracts in place to deliver services with an annual value of approximately £14 million. The council maintains a Contract Register (in the form of spreadsheet) where all contracts should be recorded.</p> <p>In accordance with the Openness of</p>	June 2017	<p>Strengths All hard copies of contracts over the value of £5,000 are stored securely in the council's strong room. From our sample testing we saw the contracts were all securely and appropriately stored in the strong room. Access to the strong room is appropriately restricted. Any contracts which are temporarily removed from the strong room are signed in/out.</p>	The purpose and use of the Contract Processing Guide was to be reinforced by the Head of Legal at the following 'First Friday Managers meeting'. Service managers were to be told to comply with the Guide and provide the

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		<p>Local Government Bodies Regulations 2014 the Council publishes the Contract Register on the Council's website. Our work reviewed:</p> <ul style="list-style-type: none"> Procedures in place for updating and maintaining the register. The extent to which the register is complete and accurate. Safe storage of contract information. 		<p>Areas for improvement</p> <p>The Contract Register was incomplete. We found this in part by analysing payments made by the Council in 2016/17. We highlighted to officers some suppliers (with whom the Council has paid £50,000+ in 2016/17) who were not on the register but appeared to have contractual payments. There were also some more obvious areas (i.e. end date of contract earlier than date of register) which needed tidying up.</p> <p>The Council has a Contract Processing Guide (CPG), which managers are required to follow to ensure the Contract Register is updated. We found there was not an established process adopted by managers for updating the Contract Register. Other aspects of required practice were also not being followed. One of the underlying factors in the Contract Register being incomplete was likely the lack of application of procedures contained within the CPG.</p>	<p>relevant information for the Contracts Register to the Procurement Officer</p>
Community Infra Structure Levy	Limited Assurance	<p>The Community Infrastructure Levy (CIL) allows local authorities in England and Wales to raise funds from developers undertaking new building projects in their area. The money can be used to fund a wide range of infrastructure work within the Hambleton area.</p> <p>The HDC final charging schedule came into effect from 7 April 2015.</p> <p>The purpose of this audit was to provide assurance to management that:</p> <ul style="list-style-type: none"> there were adequate policies and 	June 2017	<p>Strengths</p> <p>There are detailed policies and procedures in place for CIL.</p> <p>A sample of ten CIL paid applications were reviewed to ensure there had been no significant delays in the process from start to finish. In eight of the applications we saw they were being managed effectively.</p> <p>Areas for improvement</p> <p>A sample of CIL cases was reviewed to ensure all income had been collected. In seven out of ten cases we reviewed a penalty could have been imposed (per Council CIL policy) but had not been</p>	<p>The Contributions Officer now writes to both the agent and applicant in order that all parties are made aware of their obligations.</p> <p>The security of the spreadsheet has been addressed. Further improvements to the spreadsheet are planned.</p> <p>Training with the supplier of Obligation Tracker has taken place and changes are now being implemented</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<p>procedures in place for CIL which were being consistently complied with</p> <ul style="list-style-type: none"> • CIL liability and demand notices were timely and correct • all income was being collected promptly and in full • regular and accurate monitoring and management arrangements were in place. 		<p>and not appropriately considered. The total penalties for these cases would have amounted to an extra £14,723.80.</p> <p>Processes and procedures being applied were labour intensive. CIL applications are being monitored using a manually produced large spreadsheet and the electronic/automated system is not being utilised fully. The spreadsheet format could be improved to better monitor CIL. The spreadsheet had no password protection and could be accessed by anybody with access to the HDC shared network drive.</p> <p>Where technology is used with 'Obligation Tracker' (which monitors the CIL monies due and collected) there are a number of inefficiencies with use of the system.</p> <p>Indexation is being applied in a way inconsistent with the CIL policy. The Authority could be overcharging developers.</p> <p>The Community Infrastructure Regulations and HDC's CIL Charging Schedule requires the Council to publish an annual report (as part of its Authority Monitoring Report) on the operation of the levy over each financial year. This report was not available on the Council website and had not been produced.</p>	<p>to allow more efficient use of Obligation Tracker.</p> <p>We are still researching the finding in respect of indexation. It appears that different Authorities are dealing with indexation in different ways.</p> <p>An annual report has now been published on the website.</p>

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
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.
Reasonable 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.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

VERITAU

INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

1.0 BackgroundOngoing quality assurance arrangements

Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards (specifically the Public Sector Internal Audit Standards). These arrangements include:

- the maintenance of a detailed audit procedures manual
- the requirement for all audit staff to conform to the Code of Ethics and Standards of Conduct Policy
- the requirement for all audit staff to complete annual declarations of interest
- detailed job descriptions and competency profiles for each internal audit post
- regular performance appraisals
- regular 1:2:1 meetings to monitor progress with audit engagements
- induction programmes, training plans and associated training activities
- the maintenance of training records and training evaluation procedures
- agreement of the objectives, scope and expected timescales for each audit engagement with the client before detailed work commences (audit specification)
- the results of all audit testing work documented using the company's automated working paper system (Galileo)
- file review by senior auditors and audit managers and sign-off of each stage of the audit process
- the ongoing investment in tools to support the effective performance of internal audit work (for example data interrogation software)
- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- performance against agreed quality targets monitored and reported to each client on a regular basis.

On an ongoing basis, a sample of completed audit files is also subject to internal peer review by a senior audit manager to confirm quality standards are being maintained. The results of this peer review are documented and any key learning points shared with the internal auditors and audit managers).

The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken (for example, increased supervision of individual internal auditors or further training).

Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self assessment checklist and obtain evidence to demonstrate conformance with the Code of Ethics and the Standards. As part of the annual appraisal process, each internal auditor is also required to assess their current skills and knowledge against the competency profile relevant for their role. Where necessary, further training or support will be provided to address any development needs.

The Head of Internal Audit is also a member of various professional networks and obtains information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes.

The results of the annual client survey, PSIAS self-assessment and professional networking are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans. The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board³ as part of the annual report of the Head of Internal Audit.

External assessment

At least once every five years, arrangements must be made to subject internal audit working practices to external assessment to ensure the continued application of professional standards. The assessment should be conducted by an independent and suitably qualified person or organisation and the results reported to the Head of Internal Audit. The outcome of the external assessment also forms part of the overall reporting process to each client (as set out above). Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year.

2.0 Customer Satisfaction Survey – 2017

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2017. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 149 surveys (2016 – 124) were issued to senior managers in client organisations. 32 surveys were returned representing a response rate of 21% (2016 - 33%). The surveys were sent using Survey Monkey and respondents were asked to identify who they were.

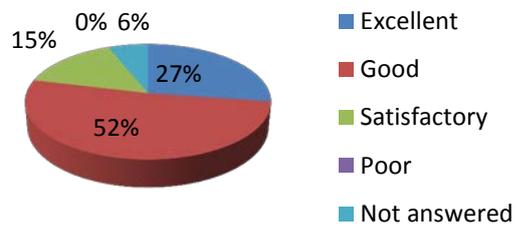
Respondents were asked to rate the different elements of the audit process, as follows:

- Excellent (1)
- Good (2)
- Satisfactory (3)
- Poor (4)

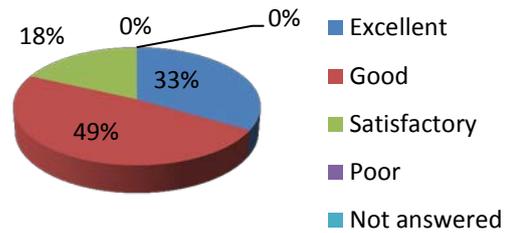
Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below:

³ As defined by the relevant audit charter.

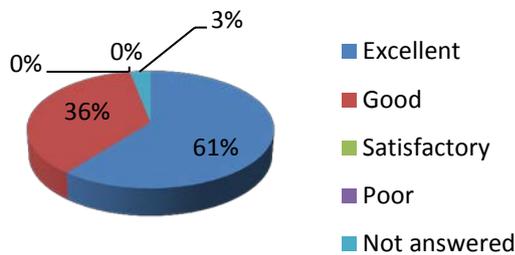
Quality of audit planning / overall coverage



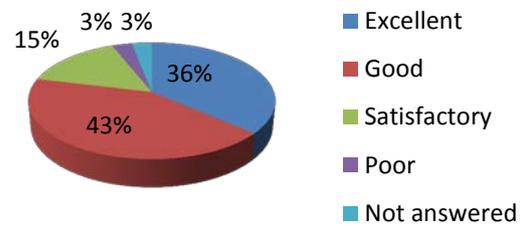
Provision of advice / guidance



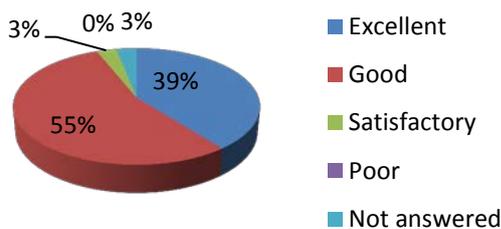
Staff - conduct / professionalism



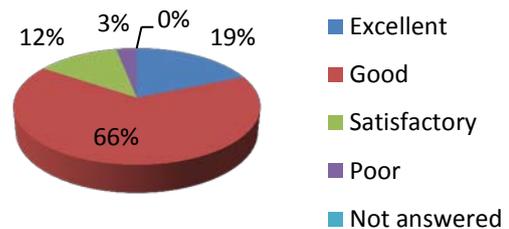
Ability to provide unbiased / objective opinions



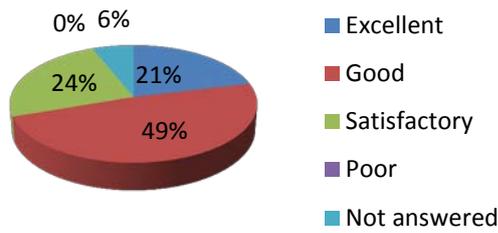
Ability to establish positive rapport with customers



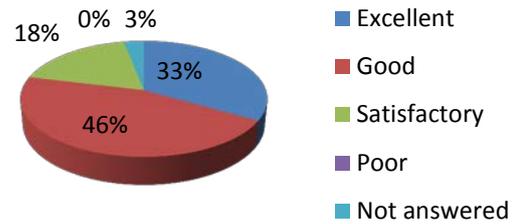
Knowledge of system / service being audited



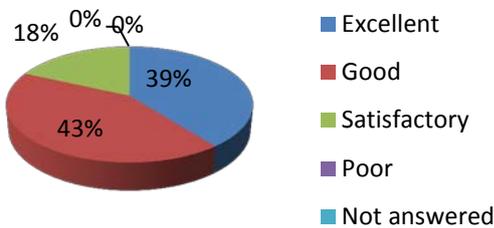
Ability to focus on areas of greatest risk



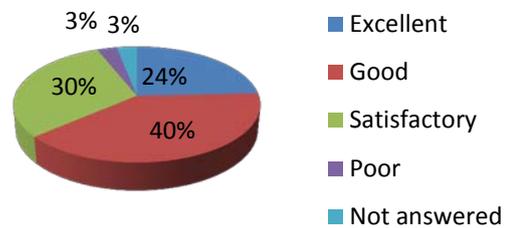
Agreeing scope / objectives of the audit



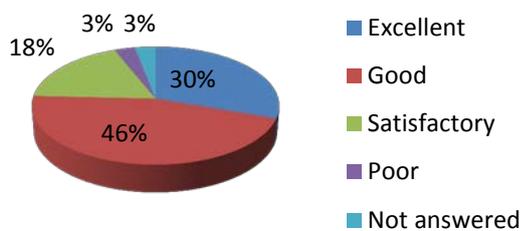
Minimising disruption to the service being audited



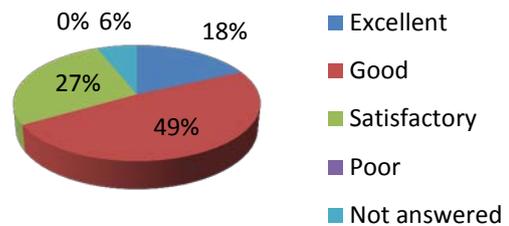
Communicating issues during the audit



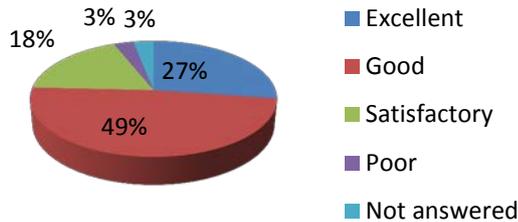
Quality of feedback at end of audit



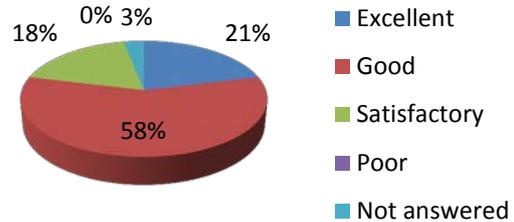
Accuracy / format / length / style of audit report



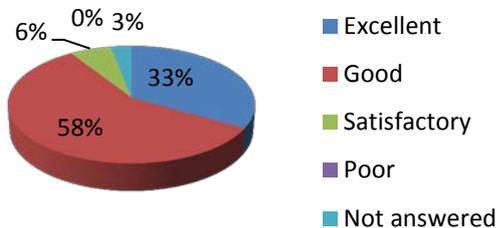
Relevance of audit opinions / conclusions



Agreed actions are constructive / practical



Overall rating for Internal Audit service



The overall ratings in 2017 were:

	2017		2016	
	Count	Percentage	Count	Percentage
Excellent	11	34%	8	27%
Good	19	60%	19	63%
Satisfactory	2	6%	3	10%
Poor	0	0%	0	0%

The feedback shows that the majority of clients continue to value the service being delivered.

3.0 Self Assessment Checklist – 2017

CIPFA prepared a detailed checklist to enable conformance with the PSIAS and the Local Government Application Note to be assessed. The checklist was originally completed in March 2014 but has since been reviewed and updated annually. Documentary evidence is provided where current working practices are considered to fully or partially conform to the standards.

In most areas the current working practices are considered to be at standard. However, a few areas of non-conformance have been identified. None of the issues identified are however considered to be significant. In addition, in some cases, the existing arrangements are considered appropriate for the circumstances and hence require no further action.

The following areas of non-conformance remain unchanged from last year:

<u>Conformance with Standard</u>	<u>Current Position</u>
Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Internal Audit?	The Head of Internal Audit's performance appraisal is the responsibility of the board of directors. The results of the annual customer satisfaction survey exercise are however used to inform the appraisal.
Is feedback sought from the chair of the audit committee for the Head of Internal Audit's performance appraisal?	See above
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific engagement will be agreed by the Head of Internal Audit and the relevant client officer. Engagements will not be accepted if there is any actual or perceived conflict of interest, or which might otherwise be detrimental to the reputation of Veritau.
Does the risk-based plan set out the - (b) respective priorities of those pieces of audit work?	Audit plans detail the work to be carried out and the estimated time requirement. The relative priority of each assignment will be considered before any subsequent changes are made to plans. Any significant changes to the plan will need to be discussed and agreed with the respective client officers (and reported to the audit committee).
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Reliance may be placed on other sources of assurances where this is considered relevant. However, the Head of Internal Audit will only rely on other sources of assurance if he/she is satisfied with the competency, objectivity and reliability of the assurance provider.

4.0 External Assessment

As noted above, the PSIAS require the Head of Internal Audit to arrange for an external assessment to be conducted at least once every five years to ensure the continued application of professional standards. The assessment is intended to provide an independent and objective opinion on the quality of internal audit practices.

Whilst the new Standards were only adopted in April 2013, the decision was taken to request an assessment at the earliest opportunity in order to provide assurance to our clients. The assessment was conducted by Gerry Cox and Ian Baker from the South West Audit Partnership (SWAP) in April 2014. Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to a number of local authorities.

The assessment consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed an audit committee chair.

The conclusion from the external assessment was that working practices conform to the required professional standards. Copies of the detailed assessment report were provided to client organisations and, where appropriate, reported to the relevant audit committee.

5.0 Improvement Action Plan

Last year's quality assurance process identified the following required improvements:

Change / improvement	Progress to date
The internal peer review highlighted the need for further training to be provided on sampling and testing.	Completed

No specific changes to working practices have been identified in 2017. However, to enhance the overall effectiveness of the service, the following areas are considered to be a priority in 2017/18:

- Further development of in-house technical IT audit expertise
- Implementation of the data analytics strategy (stage 1) and investment in new capabilities
- Improved work scheduling, clearer prioritisation of objectives for individual assignments to enable them to be managed within budget, and better communication and agreement with clients on timescales for completion of audit work.

6.0 Overall Conformance with PSIAS (Opinion of the Head of Internal Audit)

Based on the results of the quality assurance process I consider that the service generally conforms to the Public Sector Internal Audit Standards, including the *Code of Ethics* and the *Standards*.

The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. 'Partially conforms' means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit service from performing its responsibilities in an acceptable manner. 'Does not conform' means the deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit service from performing adequately in all or in significant areas of its responsibilities.