

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
23 January 2018

From: Director of Finance (s151 Officer)

Subject: **INTERNAL AUDIT SECOND PROGRESS REPORT 2017/18**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1. The provision of Internal Audit is a statutory requirement (Accounts & Audit Regulations 2015). The council has formalised its arrangements for internal audit within the Audit Charter. Internal Audit work is undertaken by Veritau who carries out work in accordance with the Public Sector Internal Audit Standards.
- 1.2. The Audit and Governance Committee approved the Internal Audit Plan for 2017/18 at its meeting held on the 21 March 2017. The purpose of this report is to inform Members of the progress made to date in delivering the 2017/18 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. Veritau is progressing in the delivery of the agreed internal audit plan. Within the report there is a summary of progress made against the plan and information on work completed since the previous Committee.
- 2.2. In the period between 1 April 2017 and 20 December 2017 Veritau has completed five pieces of work. Four reports have been finalised since the last committee and these covered Payroll and Overtime, ICT Network Management, Design and Maintenance and Pre-Employment Checks. Eight other audits are in-progress. For those audits we have yet to start then these will be started before the end of February 2018. We have agreed timings with management for all 2017/18 audits. There are no significant delays anticipated. We are on target to complete all audits and issue all draft reports by the end of April 2018.
- 2.3. It is important that agreed actions are fully implemented by managers. The internal audit team carries out follow-up work throughout the year of previously agreed actions and escalates any issues that have not been addressed, with senior managers. Where necessary, the issues will also be brought to the attention of this committee. There are currently no matters to bring to the attention of Members.

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

LOUISE BRANFORD WHITE
DIRECTOR OF FINANCE S151 OFFICER

Background papers: None

Author ref: SC

Contact: Stuart Cutts; Audit Manager; Veritau North Yorkshire
Stuart.Cutts@veritau.co.uk



Hambleton District Council
Internal Audit Progress Report 2017/18
Period to 20 December 2017

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

Circulation List: Members of the Audit, Governance and Standards Committee
Head of Service - Finance (s151 Officer)

Date: 20 December 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 accordance with the PSIAS, the Head of Internal Audit is required to report, to 'those charged with governance' progress against the internal audit plan agreed by the Committee and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members of this Committee approved the Internal Audit Plan 2017/18 at their meeting on the 21 March 2017. This report summarises the progress made to date in delivering the agreed programme of work.
- 3 This is the second Internal Audit progress report to be received by the Audit, Governance and Standards Committee in 2017/18. This report updates the Committee on the work completed between 1 April 2017 and 20 December 2017.

Internal Audit work completed

- 4 In the period between 1 April and 20 December 2017 we have completed five pieces of work. Four reports have been finalised since the last committee. The work covered Payroll and Overtime, ICT Network Management, Design and Maintenance and Pre-Employment Checks. Eight further assignments are in-progress and planning work has started for two other audits.
- 5 For those audits we have yet to start then these will be started within the next two months. We have agreed timings with management for all 2017/18 audits. We are on target to have completed all audits and issued all draft reports by the end of April 2018. We will work with officers to seek to ensure all reports are finalised by no later than the end of May 2018.
- 6 Further information is included in **Appendix A**.
- 7 Information on the findings from the audits completed since the last Audit, Governance and Standards Committee on 24 October 2017 is included in **Appendix B**.

Audit Opinions

- 8 For most reports we provide an overall opinion on the adequacy and effectiveness of the controls under review. The opinion given is based on an assessment of the risks associated with any weaknesses in controls identified. For work where we do not appraise internal controls then no opinion is provided. We also apply a priority to all actions agreed with management. Details of the definitions used when we provide an opinion and the priorities for actions are included in **Appendix C**.

Wider Internal Audit work

- 9 In addition to undertaking assurance reviews, Veritau officers are involved in a number of other areas relevant to corporate matters:

- **Support to the Audit, Governance and Standards Committee;** this is mainly ongoing through our attendance at meetings of the Committee and the provision of advice to Members.
- **Ongoing support to management and officers;** we meet regularly with management to provide advice on a range of specific business and internal control issues. These relationships help to provide 'real time' feedback on areas of importance to the Council.
- **Financial assessments;** this work involves supporting the assurance process by using financial reports obtained from Experian (Credit Rating Agency) to assess the financial standing of potential contractors. In August and September 2017 we worked alongside the Director of Finance (s151 officer) and the Corporate Finance Manager to appraise the financial and management information of Broadacres Housing Association. This work provided important due diligence information to Management and will be used in future decision making.
- **Follow up of previous audit recommendations;** it is important agreed actions are regularly and formally 'followed up'. This helps to provide assurance to management and Members that control weaknesses have been properly addressed. We have followed up agreed actions either as part of our ongoing audit work, or by separate review. We currently have no matters to report as a result of our follow up work.
- **Risk Management;** Veritau advise on the Council's risk management processes.
- **Investigations;** We perform special or ad-hoc reviews or investigations into specific issues.

Stuart Cutts
Audit Manager
Veritau Ltd

20 December 2017

Table of 2017/18 audit assignments to 20 December 2017

Appendix A

Audit	Status	Assurance Level	Audit Committee
Director of Finance (s151 Officer)			
Revenues and Benefits			
Council Tax and NNDR	In Progress		
Housing Benefits	In Progress		
Corporate Finance			
Payroll and Overtime	Final Report	Reasonable Assurance	January 2018
Creditors	In Progress		
Sundry Debtors	Not Started		
Income and Receipting	In Progress		
Performance and Improvement			
Risk Management	Not Started		
Project Management	Planning		
ICT Network Management	Final Report	Substantial Assurance	January 2018
Projects			
Purchase to Pay	In Progress		
Payment Card Industry Data Security Standard (PCI DSS)	Deferred		
Financial Appraisals – Broadacres	Completed	No opinion	October 2017
Director of Leisure and Communities			
Emergency Planning, Business Continuity and Disaster Recovery	In Progress		
Pre Employment Checks	Final Report	Reasonable Assurance	January 2018
Environmental Health	Planning		
Director of Law and Governance			
Procurement	In Progress		
Contract Management	Not Started		
Licensing	In Progress		
Director of Economy and Planning			
Design and Maintenance	Final Report	Limited Assurance	January 2018
Development Management	Not Started		
Follow-Ups	Ongoing		

Summary of Key Issues from audits completed to 20 December 2017; not previously reported to Committee

Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Payroll and Overtime	Reasonable Assurance	<p>We reviewed overtime and some key payroll procedures to establish whether:</p> <ul style="list-style-type: none"> Overtime was recorded accurately and in line with established procedures. Overtime payment was within budget and being managed and monitored effectively. Deductions to employee and consultant pay were being made correctly. Monthly reports are run and effective resulting action is made when necessary. 	December 2017	<p>Strengths: Service managers had correctly followed and completed the HMRC checklist for new employees for the IR35 regulations. Local government pension auto-enrolment regulations are also being followed.</p> <p>Appropriate monthly reports covering a number of risk areas were being run and operating effectively.</p> <p>Overtime was recorded accurately and in line with established procedures. Sample testing of overtime claims confirmed additional hours had been appropriately authorised and the correct number of hours and overtime rate was calculated and paid.</p> <p>Areas for Improvement: We saw instances where employees are working excessive hours, exceeding the 48 hour working week regulation. All of these employees work for Waste and Street Scene. Management should consider alternative options for completing necessary tasks, currently completed by members of staff who exceed 48 hours work per week.</p> <p>A number of employees' regularly and routinely work overtime. We recognise overtime is required to deliver services. However the level and nature of overtime being undertaken is something that requires further Council review. Our analysis of overtime payments across a three year period identified a significant number of employees who had received overtime payments on a recurring basis, (predominantly in Leisure Centres and Depot). With the size and regularity of these payments, we feel there is insufficient monitoring of staffing levels and the resulting overtime payments within the council.</p>	<p>The Director of Finance is to review the position of overtime to compare/ update with the report data from the end of July 2017. Ongoing work has/ is being undertaken with relevant officers and the Director of Leisure & Environment to fully consider all issues in the report.</p> <p>The exceeding 48 hours risk area will be discussed with all relevant Directors and Service Managers across the Council.</p> <p>A procedure will be introduced so if Service Managers are aware of issues they raise it with Directors and manage this as required. The expected process will also form part of the Overtime Policy.</p> <p>The Director of Finance will monitor staff levels and overtime each month by obtaining and analysing a report from payroll.</p> <p>Officers plan to implement a more strategic and sustainable approach to management of staff Council wide.</p> <p>All actions are planned to be completed by 30 March 2018.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
ICT – Network Management	Substantial Assurance	<p>We reviewed the procedures and controls within the Councils network to ensure:</p> <ul style="list-style-type: none"> • There is no unauthorised access to Hambleton data. • The network has sufficient resilience to maintain accessibility. <p>We compared the authorities network management processes, procedures and policies with CIPFA guidance and ISO 27002 control objectives.</p>	December 2017	<p>Strengths: The authority has an effective control environment to prevent malicious software and unauthorised network access. Only authorised individuals have access to the network. Remote access requires a password and access key. Controls are in place that prohibits software being installed by unauthorised users.</p> <p>Firewalls are regularly updated to ensure they can prevent the latest security threats. Configuration is tested each year as part of the Public Services Network (PSN) health check. The authority passed the PSN health check last year after an action plan was completed when initial tests identified a number of vulnerabilities. Connections with offsite Council locations (such as Leisure Centres, and the depot) are made through a Virtual Private Network (VPN). This ensures data is secured through transmission.</p> <p>The Sophos system monitors computers on the network to identify Malware. The authority also monitors hardware within the network to see it is functioning correctly. If there is an error in the functionality of the network there are controls in place to ensure the IT department is alerted.</p> <p>The sever room has physical safeguards to ensure only authorised users can access. The room also has CCTV and Environmental conditions (temperature and moisture content) are also monitored. The findings from the 2014/15 Server Rooms audit report have been addressed.</p> <p>Areas for Improvement The ISO 27002 frame work has a number of procedures that should be documented. We highlighted a small number of improvements that could be made to the documentation of the Network and the Information Security Policy.</p>	Some updates to policies will be undertaken by no later than the end of April 2018.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Pre - Employment Checks	Reasonable Assurance	<p>We reviewed the extent to which:</p> <ul style="list-style-type: none"> • Disclosure and Barring Service (DBS) checks had been completed for relevant staff, prior to employment • References were available and were obtained prior to job offer • Medical checks were being completed • Immigration, Asylum and Nationality checks were completed at point of interview • There were contracts for all staff <p>We sample tested staff working in Leisure, CCTV, Waste & Street Scene, Planning and Revenues and Benefits and focused primarily on new starters from August 2016 to August 2017.</p>	December 2017	<p>Strengths:</p> <p>In comparison to the work completed last year (solely on Leisure staff), our review in 2017/18 found a significant improvement in the number of instances where documentation was not on file.</p> <p>In each area of testing the vast majority of appropriate checks and paperwork had been undertaken.</p> <p>References were on file for all new starters (after May 2017) and had been obtained prior to the employees start date. Contracts were in place for all staff.</p> <p>Areas for Improvement</p> <p>There were some instances where sufficient evidence of Right to Work and medical checks had not been retained on some employee's files. In most cases there was alternative information suggesting these had been completed and either had not been filed/ were en-route to being filed. However for three staff only a driving licence was on file. Home Office guidance lists acceptable documents for right to work checks and a driving licence is not acceptable.</p> <p>We found one individual without a Disclosure and Barring Service (DBS) check which was since obtained. Four people had a scanned copy of the Disclosure and Barring Service (DBS) certificate on file. Disclosure and Barring Service (DBS) certificates should be kept and stored securely for no longer than necessary (generally this is up to a period of six months). All the employees who had copies on file were recruited more than 6 months ago</p> <p>Files for six people who had left the Council who could not be provided. Home Office guidance states copies of right to work should be kept securely for a further two years after an employee leaves. So this</p>	<p>HR to ensure all relevant and appropriate information to support Right to Work is kept on employee files within the central filing system. The responsibility to obtain Right to Work remains with each individual Service manager when employment occurs. We will also seek clarification on the appropriate evidence to support Right to Work checks.</p> <p>Legal advice will also be sought as to whether Right to Work check needs to be completed retrospectively for all longer serving members of staff.</p> <p>We will reiterate aspects of the Disclosure and Barring Service (DBS) policy to managers and check all employee files and remove old Disclosure and Barring Service (DBS) certificates, maintaining a record of the necessary information to provide an audit trail.</p> <p>We will review policies relating to the retention of leaver's files and clarification of the appropriate time period that individual documents within the files should be kept for.</p> <p>All actions will have been completed by 30 June 2018.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				documentation should have been kept despite being individuals being leavers. We could not find any information in the Hambleton polices available on the intranet relating to document retention and storage of leavers files/ information.	
Design and Maintenance	Limited Assurance	<p>We reviewed the Design and Maintenance service to help support the Director of Planning and Economy in proposed improvements. We covered whether:</p> <ul style="list-style-type: none"> The department effectively monitors and manages the risks affecting the whole service and the performance of the team Adequate work programmes and management arrangements exist to support effective client delivery Policies and procedures were in place, up to date, being followed and were supporting the service meet its objectives 	December 2017	<p>Strengths: The service has changed significantly over recent years and is now delivering a more complex and varied service to the Council. Whilst training, development and procedures have not kept up with these changes, senior management have identified improvements are required. The department is now undergoing some significant changes to structures and working practices.</p> <p>Job descriptions have also recently been reviewed and updated to ensure they are up to date.</p> <p>Areas for Improvement Design and Maintenance are exposed to a variety of operational risks. Operational risk management is a fundamental part of effective service delivery. We felt risk management arrangements were currently weak. Although some operational risks are identified within the service plan, current service delivery risks were not all captured or being managed effectively. Some project risks were not within the project risk register. There was a lack of movement on Design and Maintenance risks and controls on the register which suggest a number are out of date and need review.</p> <p>Design and Maintenance are responsible for carrying out major projects on behalf of the Council. They also offer advice to other departments on capital projects and other specialist areas. However we found project management was not consistent and effective across the department. Our review of three project files also noted no clear retention and categorisation to project information.</p>	<p>A review of the risk register will be carried out, and the risk register will be updated to reflect appropriate risks. This process will be overseen by the newly emerging strategic risk management group to ensure review and challenge.</p> <p>The Director of Planning and Economy is aware the spreadsheet is in place. In her view it has been operating appropriately so far. The spreadsheet will be updated and improved accordingly once the new Asset Manager is in role to ensure jobs are logged and appropriately allocated.</p> <p>Project Management is being corporately reviewed by Senior Management. Following this the team will receive refresher project management training and an introduction to the new framework. Changes in personnel will lead to monthly monitoring and review of work programming. We aim for this and the previous actions to be completed by the end of April 2018.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				<p>It is essential individual jobs can be clearly identified, categorised and allocated to individuals. We were told the department had a new spreadsheet to record planned and unplanned work. However this document was not able to be shared for audit review so we were not able to establish whether the process in place for recording and managing planned and unplanned work was working effectively.</p> <p>At the time of the audit, some policies and procedures were available. However of those which were available some were out of date and incomplete.</p>	<p>Complete and robust procedure notes will be developed once the new structures and working practices have been confirmed. We expect this to be completed by the end of 2018.</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.