

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
18 June 2014

From: Director of Support Services and Deputy Chief Executive

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

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of the report is to present the Internal Audit Annual Report for 2013/14 which is prepared by Veritau North Yorkshire (VNY).
- 1.2 The purpose of the report is to provide a statement of assurance regarding the adequacy and effectiveness of the internal control system; and a summary of the internal audit work carried out during the year to 31 March 2014. The Statement of Assurance will support the Annual Governance Statement (AGS) which forms part of the Council's Financial Statements.
- 1.3 Within the report there is also a summary of the audit opinions for the individual audits completed in the year, to support the overall opinion. It also includes a synopsis of the performance of Veritau in delivering internal audit to Hambleton DC.
- 1.4 Veritau carried out it's work in accordance with the Accounts and Audit Regulations 2011 and the Public Sector Internal Audit Standards.
- 1.5 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.

2.0 DECISIONS SOUGHT:

- 2.1 It is recommended that the attached report for 2013/14 be approved.

3.0 RISK ANALYSIS:

3.1 Risk in approving the recommendation(s)

Risk	Implication	Prob*	Imp*	Total	Preventative action
There are no significant risks associated with the consideration of this report	N/a	N/a	N/a	N/a	N/a

3.2 Risk in not approving the recommendation(s)

Risk	Implication	Prob*	Imp*	Total	Preventative action
Internal Audit & Risk Management activity is not monitored by a Member body.	External Audit may comment if Members are not kept informed of risk management activity.	3	2	6	Members continue to require regular reports on internal audit work that has been undertaken by the Council.

Prob = Probability, Imp = Impact

Score range is Low = 1 to High = 5

4.0 **CONCLUSIONS:**

4.1 The overall opinion of the Head of Internal Audit on the risk management, governance and controls operated in Hambleton District Council is that they provide **Substantial Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.

4.2 Although a substantial assurance opinion can be given, we are aware of some weaknesses in the control environment which have been identified around Information Governance and Data Security and around Creditors. We have recommended that Information Governance is considered for inclusion in the report on the Annual Governance Statement, prepared by the S151 Officer.

5.0 **RECOMMENDATIONS:**

5.1 It is recommended that the attached report for 2013/14 be approved:-

JUSTIN IVES

Background papers: None

Author ref: JB

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Hambleton District Council

Internal Audit Annual Report

2013/14

Audits Completed	
High Assurance	6
Substantial Assurance	8
Moderate Assurance	1
Limited Assurance	1
No Assurance	0

Audit Opinion

Substantial Assurance

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

Circulation List: Members of the Audit, Governance & Standards Committee
 Director of Support Services and Deputy Chief Executive

Date: 18 June 2014

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the Public Sector Internal Audit Standards (PSIAS). In accordance with these standards, the Head of Internal Audit is required to report to those charged with governance the findings of audit work, provide an annual opinion on the effectiveness of the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
- 2 During the financial year the Council's internal audit service was provided by Veritau North Yorkshire Ltd, which is part of the Veritau Group.

Internal Audit Work Carried Out 2013/14

- 3 During the 2013/14 year, internal audit work was carried out across the full range of activities of the Authority. The main areas of internal audit activity included:
 - **Strategic Risk Register;** the plan is explicitly aligned to the Council's risk register(s). This accords with commonly accepted good practice and will enable members of the audit committee and the management team to satisfy themselves that internal audit activity is focused on the main risks to the Council. During the year one audit fell below Substantial Assurance in its rating. Information Governance was rated as 'limited assurance' (non compliance with 'HMG Information Assurance Maturity Model and Assessment Framework (IAMM)' fell short of the basic 'level one' assessment).
 - **Fundamental/Material Systems;** work in this area provides both assurance to Hambleton DC and helps support the work of external audit in providing assurance that the 'key' systems within the Council have a sound control environment. During the year one audit fell below Substantial Assurance in its rating. The Creditors system was rated as 'moderate assurance' (risk around e-procurement and delegated authority).
 - **Regularity;** one area was reviewed which produced a 'substantial' rating.
 - **Technical/Projects;** to consult and advise on the control and risk environment on various projects the Council is involved in.
 - **Follow Up;** this work covers those audits where significant risk has been identified and is intended to provide assurance that the agreed recommendations are being properly implemented. The areas reviewed are highlighted in Appendix 2.
 - **Contractor Assessment;** this work involved supporting the assurance process by using financial reports obtained from Dunn & Bradstreet (credit rating agency) in order to confirm the financial robustness of contractors.
 - **Systems Development;** Internal Audit attended a number of 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;** No special investigations were carried out during the year.
- 4 **Appendix 1** shows the final table of audit work carried out, and the audit opinion associated with the audits completed. **Appendix 2** provides a summary of the findings of our audit work, and **Appendix 3** an explanation of our assurance levels and finding priorities.

Compliance with Standards

- 5 The work of internal audit has been undertaken in accordance with the PSIAS.
- 6 The internal audit Quality Assurance and Improvement Programme includes ongoing monitoring of the performance of the internal audit activity. Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. All audit work is reviewed by managers and a sample of work is also subject to internal peer review. Post audit customer satisfaction surveys are issued after all assignments. In addition, senior management are asked to complete an annual survey on the overall quality of the service.
- 7 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. An external assessment was carried out in April 2014 by the South West Audit Partnership (SWAP). The results of this external assessment will be reported to this committee, including details of any subsequent improvement plan when they become available.

Audit Opinion and Assurance Statement

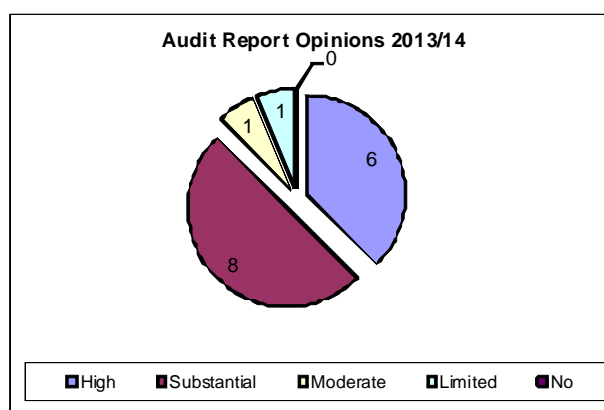
- 8 The overall opinion of the Head of Internal Audit on the risk management, governance and controls operated in Hambleton District Council is that they provide **Substantial Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.
- 9 Although a substantial assurance opinion can be given, we are aware of some weaknesses in the control environment which have been identified around Information Governance and Data Security and Creditors. We have recommended that Information Governance is considered for inclusion in the report on the Annual Governance Statement, prepared by the S151 Officer.



Max Thomas
Director and Head of Internal Audit
Veritau Ltd

18 June 2014

Table of 2013/14 audit assignments completed



Audit	Status	Audit Committee
Strategic Risk Register		
Shared Service - Advice		
Affordable Housing	Completed ~ Substantial Assurance	March 2014
Local Development Framework	Completed ~ Substantial Assurance	June 2014
Community Infrastructure Levy	Completed ~ High Assurance	January 2014
Savings Delivery	Completed ~ High Assurance	March 2014
Information Governance & Data Protection	Completed ~ Limited Assurance	October 2013
Performance Framework	Completed ~ High Assurance	March 2014
Fundamental/Material Systems		
Council Tax/NNDR	Completed ~ High Assurance	June 2014
Benefits	Completed ~ Substantial Assurance	June 2014
Creditors	Completed ~ Moderate Assurance	June 2014
Income/Receipting System	Completed ~ Substantial Assurance	June 2014
General Ledger	Completed ~ High Assurance	March 2014
Treasury Management	Completed ~ Substantial Assurance	June 2014
Capital Accounting	Completed ~ High Assurance	June 2014
Regularity Audits		
Equalities	Completed ~ Substantial Assurance	October 2013
Technical/Project Audits		
ICT – Advice, Policy Review	N/A	
Workspace	Completed ~ Substantial Assurance	January 2014

Audit	Status	Audit Committee
Contingency		
- Licensing Charges -	Completed ~ Substantial Assurance	October 2013
Follow Ups:	Completed – see below for follow up action against ‘key weaknesses’.	

Appendix 2

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

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Local Development Framework	Substantial Assurance	Overview of the adoption of the core strategy with emphasis on monitoring and meeting targets which impacts upon the New Homes Bonus Grant	14 May 2014	<p>Strengths Officers have progressively worked towards targets to maximise the New Homes Bonus Grant.</p> <p>Key Weaknesses Whilst it appears that a substantial amount of monitoring is carried out, targets are still not being met. As part of the housing plan review, there has been consideration of a reduction in the affordable housing percentage targets and thresholds in policy but not an overall reduction in housing targets.</p>	<p>The key factors in maximising NHB within the control of the Council is that sufficient readily deliverable housing sites are identified in the LDF and that they are granting planning permission for these. Monitoring systems will be reviewed to ensure that comprehensive information on potential new housing developments is utilised. <i>30 September 2014</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Council Tax/NNDR	High Assurance	A review of the key risks/controls for the setting and collection of local tax.	12 May 2014	<p>Strengths It was found that the arrangements for managing risk were very good with the processes supported effectively by officers.</p> <p>Key Weaknesses No key weaknesses identified.</p>	
Benefits	Substantial Assurance	A review of the key risks/controls involved in awarding and paying benefits.	12 May 2014	<p>Strengths The Housing Benefits service is provided by experienced and efficient officers who are well aware of their roles and responsibilities.</p> <p>Key Weaknesses The subsidy claim was 'qualified' in several areas which more frequent monitoring/reconciliation may have prevented.</p>	<p>Review subsidy quarterly and review sections own accuracy findings. Consider training or changes to processes and implement where beneficial. <i>1 June 2014</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Creditors	Moderate Assurance	A review to ensure Creditors are correctly paid in a timely manner.	12 May 2014	<p>Strengths The current system utilised is managed by experienced officers.</p> <p>Key Weaknesses The e-procurement system is not always utilised when placing orders, as per the Constitution.</p> <p>Purchases are not always made in line with delegated authority.</p>	<p>Review the process of e-procurement on a council wide basis and evaluate whether it is beneficial to use e-procurement and the raising of purchase orders for the council more extensively. Alternatively if the review shows that it adds no value in an organisation the size of HDC, the Constitution will be amended.</p> <p>Review the purchase cards policy and procedures and ensure that the e-procurement/finance system is utilised in the first instance. <i>31 August 2014</i></p> <p>Review the master delegated authority list in Excel and ensure it is updated to correct budget holder responsibility and reconcile with the authorised signature forms. The purchasing card limits will be checked to ensure they are in line with the authorised delegated authority and budget</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>All cheques are entered onto COA and the status changed as they are issued. The lead cheque is marked as void which has to be done manually. There is no control to prevent an officer from going back into the system and changing the status back to 'issued'. This would then pass through the bank reconciliations. Void cheques are recorded on a spreadsheet, again it would be possible to either delete the line or fail to record it at all.</p>	<p>holder requirements. 31 August 2014</p> <p>Investigate with COA whether a countercheck can be introduced to prevent the person who placed the cheque on to void, re-entering the system and placing the cheque back to issued.</p> <p>Another officer will physically compare the void cheque to the spreadsheet and COA to make sure it actually says void on it and has been crossed through, then sign it off. 31 August 2014</p>
Income/Receipting System	Substantial Assurance	To ensure that monies received are accounted for and allocated correctly within the accounts of the Authority.	8 May 2014	<p>Strengths The cash receipting system is well developed and managed by experienced and efficient officers.</p> <p>Key Weaknesses At Hambleton there is still the provision to issue manual receipts to customers for payments made while the cash receipting system is offline, during cashing-up.</p>	<p>The issuing of manual receipts will be kept to a minimum and fully controlled. <i>Immediate</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>At the customer services office in Stokesley the password to ICON was written on a piece of paper and attached to the back of the reception desk.</p>	<p>Appropriate action and procedures have been put in place to remedy the issue identified. <i>Immediate</i></p>
Treasury Management	Substantial Assurance	To ensure that funds are securely and wisely invested/borrowed.	12 May 2014	<p>Strengths Treasury Management duties are undertaken by a small team of experienced officers.</p> <p>Key Weaknesses The TM Code of Practice appears not to have been updated since 2011, specifically the 12 TM practices including roles and responsibilities for Treasury Management.</p> <p>The Director of Housing and Planning occasionally authorises investment payments but is not on the Delegated Authority list.</p>	<p>Will update the TM practices so they accurately reflect current arrangements. <i>31 November 2014</i></p> <p>Will review the delegated authority list and ensure it accurately reflects the Council's authorisation. <i>31 August 2014</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Capital Accounting	High Assurance	To ensure that Capital/Assets are treated, in the accounts, with agreed/legislative standards.	9 May 2014	<p>Strengths It was found that the arrangements for managing risk were very good with the processes supported effectively by officers.</p> <p>Key Weaknesses No key weaknesses identified.</p>	

Summary of Key Issues from audits previously reported to Committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Affordable Housing	Substantial Assurance	To provide assurance that the controls it has put in place to manage key risks relating to the achievement of local and national targets for affordable housing are effective.	10 February 2014	<p>Strengths It was found that the arrangements for managing risk were very good and that an effective control environment appears to be in operation.</p> <p>Key Weaknesses No key weaknesses identified.</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Savings Delivery	High Assurance	The purpose of the audit was to provide assurance to management that the controls and measures it had put in place to manage key risks relating to Savings Delivery were effective.	19 February 2014	<p>Strengths It was found that the arrangements for managing risk were very good with the processes supported effectively by officers.</p> <p>Key Weaknesses No key weaknesses identified.</p>	
Performance Framework	High Assurance	A review to provide assurance that the framework for managing 'performance' within the Council, is robust.	10 February 2014	<p>Strengths The monitoring and reporting of performance is carried out effectively to a high standard by appropriately trained officers.</p> <p>Key Weaknesses No key weaknesses identified.</p>	
General Ledger	High Assurance	A limited review to provide assurance that the key controls around budget setting, monitoring processes and reconciliations are working as intended and that adequate budgetary control is exercised.	13 February 2014	<p>Strengths There is a good management of risk with officers carrying out the day to day functions in the maintenance of the ledger, effectively.</p> <p>Key Weaknesses No key weaknesses identified.</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
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 identified.</p>	
Workspace	Substantial Assurance	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.	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</p>	In the case that was examined, the request to amend the rents

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		to check, and no company credit history.		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 amended to reflect the market conditions. In the case reviewed, the amendments were agreed but the authorisation was only verbal rather than written.	was in writing. It was the authorisation that was not; this will be adhered to in future to ensure a secure management trail.
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	<p>Strengths</p> <p>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,</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>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 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</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

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>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 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</p>	<p>quality checks to be introduced 1 November 2013 <i>Update - Completed</i></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. <i>Update - Completed</i></p> <p>A communication plan to raise staff awareness of Information Security issues will commence in August 2013. <i>Update - Completed</i></p> <p>Ongoing revisionary and new starter training in Date Protection and wider Information Security will be delivered by ICT, with a delivery plan to be drawn up. 1 November 2013 <i>Update - Ongoing</i></p> <p>To meet the requirements identified in this audit and within</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>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 and 3rd parties. In addition, the policy does not allocate responsibility for Information Governance.</p>	<p>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 reviewed/written to ensure a strong approach to Information Management within the Council • updated Document Management and Retention Policy to include electronic data

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Equalities	Substantial Assurance	A review to ensure that the Council is complying with the Equalities Act 2010.	27 August 2013	<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>	30 November 2013 Update – completed
				<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. 1 March 2014</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
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</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.	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		within HDC are compliant with the European Directive and UK legislation.			

Appendix 3

Audit Opinions and Priorities for Actions

Audit Opinions	
<i>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.</i>	
<i>Our overall audit opinion is based on 5 grades of opinion, as set out below.</i>	
Opinion	Assessment of internal control
High Assurance	<i>Overall, very good management of risk. An effective control environment appears to be in operation.</i>
Substantial Assurance	<i>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.</i>
Moderate assurance	<i>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.</i>
Limited Assurance	<i>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.</i>
No Assurance	<i>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.</i>

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