

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
24 January 2017

From: Director of Finance (S151 Officer)

Subject: **INTERNAL AUDIT SECOND PROGRESS REPORT 2016/17**

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 2016/17 at its meeting held on the 22 March 2016. The purpose of this report is to inform Members of the progress made to date in delivering the 2016/17 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 planned start dates for the remaining work. There are no significant delays anticipated and therefore the programme of work is expected to be completed by the end of the year.
- 2.2 In the period between 1 April 2016 and 31 December 2016 Veritau has completed four pieces of work. Three reports have been finalised since the last committee and these covered Leisure Centres, Environmental Health and Payroll. Training has also been delivered to officers on Contract Management. Two draft reports have been issued on Fraud and Corruption and Council Tax/NNDR. Work is ongoing on seven areas (Housing Benefits, Data Analytics, Strategic Income, General Network and System controls, Business Continuity, Disaster Recovery and Strategic Training). Planning has started for three other pieces of work.
- 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.

DIRECTOR OF FINANCE (S151 OFFICER)
LOUISE BRANFORD-WHITE

Background papers: None

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Hambleton District Council

Internal Audit Progress Report 2016/17

Period to 31 December 2016

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: 4 January 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 2016/17 at their meeting on the 22 March 2016. 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 2016/17. This report updates the Committee on the work completed between 1 April 2016 and 31 December 2016.

Internal Audit work completed

- 4 In the period between 1 April and 31 December 2016 we have completed four internal audit pieces of work; three reports (on Leisure Centres, Environmental Health and Payroll) and a training day for officers on Contract Management. A further two audits have been issued as a draft report and seven audits are ongoing. Planning work has started for three 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 2016/17 audits. We are on target to deliver the agreed Audit Plan by the end of April 2017.
- 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 25 October 2016 is included in Appendix B.

Updates to the 2016/17 Audit Plan

- 8 Following the last Audit, Governance and Standards Committee we have agreed some minor revisions to the 2016/17 plan with the Director of Finance (s151 Officer). Overall there is no change to the total number of audit days.
- 9 We have completed additional work on the review of Fraud and Corruption arrangements and Environmental Health than was initially envisaged in the 2016/17 original plan. The extra time has enabled the work to have greater value to the Council by providing more detailed reporting and audit review.
- 10 We have used the time originally allocated to complete work on Purchase to Pay and Payment Card Industry Data Security Standards (PCI DSS) to help complete the above additional work. Future work in those areas will be considered in 2017/18 as part of the upcoming audit planning process.

Audit Opinions

- 11 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. We also apply a priority to all actions agreed with management. Details of the definitions used are included in **Appendix C**.

Wider Internal Audit work

- 12 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.
 - **Contractor assessment;** 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.
 - **Follow up of previous audit recommendations;** it is important that 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 follow up agreed actions either as part of our ongoing audit work, or by separate review. This work forms part of conversations with senior management. We currently have no matters to report to members 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. In 2016/17 we have been asked by the Chief Executive to provide support reviewing one area and that work is ongoing.

Stuart Cutts
Audit Manager
Veritau Ltd

4 January 2017

Table of 2016/17 audit assignments to 31 December 2016

Appendix A

Audit	Status	Assurance Level	Audit Committee
Director of Finance (s151 Officer)			
Revenues and Benefits			
Council Tax and NNDR	Draft Report		
Housing Benefits	In Progress		
Corporate Finance			
IDEA data analytics and data matching	In Progress		
Sundry Debtors	Planning		
Creditors	Not Started		
Income – Receipting	Not Started		
Income – Strategic	In Progress		
Payroll	Final Report	Substantial Assurance	January 2017
General Network and Key Systems controls	In Progress		
Performance and Improvement			
Performance Improvement and Data Quality	Not Started		
Risk Management	Planning		
Projects			
Fraud and Corruption	Draft Report		
Strategic Asset Management	Not Started		
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)	Not Started		
Environmental Health	Final Report	Reasonable Assurance	January 2017
Business Continuity	In Progress		
Disaster Recovery	In Progress		
Director of Law and Governance			
Strategic Training	In Progress		
Contract Management – training	Completed		
Contract Management – follow up review	Planning		
Director of Economy and Planning			
Community Infra- Structure Levy	Not started		
Follow-Ups			
	Ongoing		

Summary of Key Issues from audits completed to 31 December 2016; not previously reported to Committee

Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Leisure Centres	Substantial Assurance	<p>The Council has four Leisure Centres at Hambleton, Stokesley, Bedale, and Thirsk and Sowerby.</p> <p>We reviewed the following key areas to ensure:</p> <ul style="list-style-type: none"> • There were adequate and effective financial and administrative procedures which were being consistently followed • Procedures were in place for time recording and overtime • All cash income was stored securely in a safe and only appropriate officers had access • All cash income was cashed-up and banked promptly, securely, completely and accurately. <p>We also followed up the extent to which all recommendations made in the January 2016 report on Thirsk and Sowerby Leisure Centre had been implemented.</p>	October 2016	<p>Strengths</p> <p>We found controls surrounding the security of cash and banking were generally good. We tested a sample of weekly income sheets from the four Leisure Centres to ensure variances were being investigated in line with the policy. Variances were being investigated and discrepancies are being recorded in the notes section of the spreadsheet.</p> <p>A sample of timesheets was checked to the corresponding rota to ensure staff only claimed for hours worked. We found on the whole the rotas were clear, understandable and could be matched to the corresponding timesheets. Timesheets had been signed by the employee and a supervisor.</p> <p>We saw some improvements at Thirsk & Sowerby Leisure Centre. Stricter controls were in place with regard to access.</p> <p>Areas for Improvement</p> <p>Some recommendations from the January 2016 report had not yet been fully implemented. CCTV had not yet been improved. There were also not always two people present at weekends when cashing up and putting money in the safe. The new process of reconciliation at point of collection was not being documented.</p> <p>Improvements were suggested for the type of safe used at each Leisure Centre.</p> <p>Some variances significantly over the investigation level were found on weekly merger sheets.</p>	<p>External CCTV at Thirsk Leisure Centre is to be reviewed to help improve coverage.</p> <p>The final cash up will occur at 2pm before the receptionist finishes shift so this will allow two people to be present and this captures the majority of the income collected for that day</p> <p>The type of safe used at the Leisure Centres will be reviewed with the potential of installing drop safes. Reconciliations are not being carried out at point of collection. More robust and accurate records are being maintained when cash is input into the safe.</p> <p>Merger sheets are currently being reviewed to identify areas of improvement. Discussions are planned with finance to evaluate the current tolerance level.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Environmental Health	Reasonable Assurance	<p>The Council has seen increasing pressures on the Environmental Health service due to growing demands and changes in legislation. The food inspection service has been one area in particular where the Authority is struggling to meet service demand.</p> <p>The audit reviewed the extent to which:</p> <ul style="list-style-type: none"> • The Environmental Health department effectively monitors and manages the key risks affecting the service • Adequate Management and Senior Management controls are in place to manage areas such as time management and performance. • Food inspection strategies and procedures have been reviewed to ensure they are effective, fit for purpose and followed. 	December 2016	<p>Strengths</p> <p>The Environmental Health Manager has invested a lot of time and resources into reviewing each service within the department to help to improve efficiency.</p> <p>A quarterly visitation schedule is in place, which adheres to the Food Standards agency risk based approach.</p> <p>Service risks are identified and reviewed through the corporate risk framework.</p> <p>Areas for Improvement</p> <p>The food service plan has too many objectives, too many performance indicators and content which is unrealistic to achieve. The food service plan had also not been subject to formal and robust review by Senior Management.</p> <p>There was a lack of documented senior management review of performance, service issues and upcoming challenges. Not all operational areas were being covered and actions to be completed were not being identified.</p> <p>The Uniform system is shortly being reviewed (a 'health check') to help improve the functionality and quality of arrangements. The Food Inspection team has highlighted many potential areas for improvement such as increasing the efficiency of staff using the system and improving levels of security and resilience. Further work is required to define how each of the improvements will be achieved. Decisions are also needed on the reports required from the system to ensure these will be available and of use for monitoring purposes.</p>	<p>The food service plan is to be fully reviewed and plan objectives will be revised.</p> <p>Team meetings will be documented with a published agenda and minutes taken. The updated service plan will help focus these more.</p> <p>Information from the system supplier plus additional support and consideration will be undertaken to help ensure the health check meets the desired improvement aims and objectives.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Payroll	Substantial Assurance	<p>From October 2015 the Payroll system has been operated in-house at Hambleton. Our review of these payroll arrangements in 2015/16 concluded High Assurance arrangements were in place.</p> <p>Our review in 2016/17 focussed on the areas of overtime and timesheets. We reviewed these areas to ensure:</p> <ul style="list-style-type: none"> Established procedures were in place for time recording and overtime Manual timesheets were accurate, timely, authorised appropriately and processed correctly Additional hours/overtime (not submitted via self-service) was appropriately authorised, accurately paid and coded correctly into the General Ledger. 	December 2016	<p>Strengths All overtime hours were processed accurately within the payroll system. Payments were correctly coded into the General Ledger.</p> <p>Our sample testing found timesheets are generally authorised appropriately by Management.</p> <p>Areas for Improvement We further analysed the Council's overtime data from April – September 2016 using computer software. This information highlighted overtime trends and we provided further information and insight for officers to consider and manage. Over a six month period £438,683 was spent on overtime for manual claims.</p> <p>There are no official written policies and procedures for time recording and overtime both at a corporate level and for the Depot. Payroll procedural instructions are also still to be completed.</p> <p>Some minor issues were found with timesheets in relation to calculating hours.</p>	<p>Management are aware of the level of overtime across all areas of the Council including Leisure Centre. However improvements may be able to be made and the monitoring of overtime will be reviewed.</p> <p>Management are to further review and use the data provided in the audit to help challenge the ongoing management of overtime.</p> <p>Procedures and guidance notes are being written.</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.