

## **HAMBLETON DISTRICT COUNCIL**

**Report To:** Audit, Governance and Standards Committee  
21 March 2017

**From:** Director of Finance (s151 Officer)

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

All Wards

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### **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 April 2017.
- 2.2 In the period between 1 April 2016 and 28 February 2017 Veritau has completed seven pieces of work. Three reports have been finalised since the last committee and these covered Strategic Training, Council Tax/NNDR and Strategic Income collection and charging. A further audit has been issued as a draft report and work is ongoing on all other areas.
- 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](mailto:Stuart.Cutts@veritau.co.uk)



**Hambleton District Council**

**Internal Audit Progress Report 2016/17**

**Period to 28 February 2017**

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

**Circulation List:** Members of the Audit, Governance and Standards Committee  
Director of Finance (s151 Officer)

**Date:** 28 February 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 third 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 28 February 2017.

## Internal Audit work completed

- 4 In the period between 1 April 2016 and 28 February 2017 we have completed seven internal audit pieces of work. A further two audits have been issued as a draft report and work is ongoing for all other audits in the plan. We are on target to deliver the agreed Audit Plan by the end of April 2017.
- 5 Further information on the progress of audits is included in Appendix A.
- 6 Further details on the findings from the three audits completed since the last Audit, Governance and Standards Committee on 24 January 2017 are included in Appendix B.

## Audit Opinions

- 7 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

- 8 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 ongoing 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 review one specific area. A draft report was provided to management on 9 February 2017.

Stuart Cutts  
Audit Manager  
Veritau Ltd

28 February 2017

Audit	Status	Assurance Level	Audit Committee
<b>Director of Finance (s151 Officer)</b>			
<b>Revenues and Benefits</b>			
Council Tax and NNDR	<b>Final Report</b>	<b>Substantial Assurance</b>	<b>March 2017</b>
Housing Benefits	In Progress		
Revenues and Benefits System Access Controls	<b>Draft Report</b>		
<b>Corporate Finance</b>			
IDEA data analytics and data matching	In Progress		
Sundry Debtors	In Progress		
Creditors	In Progress		
Income – Receipting	Planning		
Income – Strategic collection and charging	<b>Final Report</b>	<b>Reasonable Assurance</b>	<b>March 2017</b>
Payroll	<b>Final Report</b>	<b>Substantial Assurance</b>	<b>January 2017</b>
<b>Performance and Improvement</b>			
Performance Improvement and Data Quality	Planning		
Risk Management	In Progress		
<b>Projects</b>			
Fraud and Corruption	<b>Draft Report</b>		
Strategic Asset Management	In Progress		
Purchase to Pay	Deferred		
Payment Card Industry Data Security Standards (PCI DSS)	Deferred		
<b>Director of Leisure and Environment</b>			
Leisure Centres	<b>Final Report</b>	<b>Substantial Assurance</b>	<b>January 2017</b>
Closed Circuit Television (CCTV)	Planning		
Environmental Health	<b>Final Report</b>	<b>Reasonable Assurance</b>	<b>January 2017</b>
Business Continuity	In Progress		
Disaster Recovery	In Progress		
<b>Director of Law and Governance</b>			
Strategic Training	<b>Final Report</b>	<b>Reasonable Assurance</b>	<b>March 2017</b>
Contract Management – Training	<b>Completed</b>		
Contract Management – Contracts Register	In Progress		
<b>Director of Economy and Planning</b>			
Community Infra- Structure Levy	In Progress		
<b>Follow-Ups</b>			
	Ongoing		

## Summary of Key Issues from audits completed to 28 February 2017; not previously reported to Committee

## Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Strategic Training	Reasonable Assurance	<p>Hambleton's Council Plan (2015-2019) has investment in people as one of the Council's four 'core FOUNDATIONS'. The plan states the Council will:</p> <ul style="list-style-type: none"> <li>• Empower the workforce</li> <li>• Develop the skills and abilities of officers throughout the organisation</li> <li>• Provide excellent training opportunities</li> <li>• Create a healthy environment where staff want to work</li> <li>• Seek to maintain a good work-life balance</li> </ul> <p>The purpose of the audit was to review training arrangements to consider whether:</p> <ul style="list-style-type: none"> <li>• An effective training and development strategy is in place and being followed</li> <li>• Management at all levels apply key requirements to employee performance and management arrangements</li> <li>• Procedures are in place and are working to evaluate the success of training</li> </ul>	February 2017	<p><b>Strengths:</b></p> <p>Training is being given a corporate priority with key messages included in the Council plan and the plans to implement a training and development strategy.</p> <p>There is a corporate training schedule in operation, covering topics such as sickness absence management, cyber security, dealing with difficult people, and using Word.</p> <p><b>Areas for Improvement:</b></p> <p>Whilst the overall arrangements need further development to deliver the Council plan aspirations, progress is being made. The HR department are in the early stages of developing a training and development policy. However, there are no specific plans for rolling out the policy once it is written.</p> <p>It is recognised that embedding all of the necessary aspects of the training and development policy may also be a significant challenge. Organisation factors such as culture, existing ways of working and a lack of clarity on responsibilities may be barriers to successful delivery.</p> <p>The 'Post Entry, Qualification and Vocational Training Policy' has also not been reviewed since 2008.</p>	<p>Human Resources (HR) will ensure sufficient communication is given on the new training and development policy. A briefing on the new policy will be delivered, which is standard practice for HR policies.</p> <p>Clear procedures covering the identification of training and development opportunities will be included in the Training and Development Strategy.</p> <p>The Post entry, qualification and vocational training policy is included for review by HR.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Council Tax and NNDR	Substantial Assurance	<p>Council Tax and National Non Domestic Rates (NNDR) are two of the council's key funding streams for the provision of its services.</p> <p>The 2015/16 audit had an overall opinion of substantial assurance. For this year's audit we focused review on some potentially higher risk areas, which have the effect of reducing the amount of Council Tax and NNDR to be paid.</p> <p>We reviewed these areas to ensure:</p> <ul style="list-style-type: none"> <li>Exemptions, relief and disregards were only applied to eligible individuals and businesses</li> <li>Joint and several liability were applied correctly for payments of Council Tax and NNDR.</li> </ul>	February 2017	<p><b>Strengths:</b></p> <p>Procedures and controls help to ensure 'Single person resident' discount is applied to eligible individuals.</p> <p>We found appropriate controls to ensure the 'Armed Forces' discount was applied accurately. Discrepancies with the payment arrangements had been dealt with efficiently between the Senior Taxation Officer and MOD Housing Stock Manager.</p> <p>Testing on the NNDR accounts with 'Small business' relief and 'Empty Property Rates for Industrial Hereditament' exemption showed there were effective controls to ensure they were only applied to eligible reliefs.</p> <p><b>Areas for Improvement:</b></p> <p>There were no procedure notes available for the Enquiry Officer to follow when carrying out inspections.</p> <p>In some instances when an application for a discount is made via the phone, we noted the liable persons name is not obtained and confirmed by the Officer.</p>	<p>Procedure notes for inspections are being written.</p> <p>When the authority receives a phone call application, the person liable for payment will be clearly identified and recorded on the customer account.</p>
Strategic Income Collection and Charging	Reasonable Assurance	<p>There are challenges Councils face which impact on the income they are able/want to collect and how they collect it. Beyond the financial importance charging can also be used as a policy instrument to support service and strategic objectives.</p>	February 2017	<p><b>Strengths</b></p> <p>The Council has a 10 year Financial Strategy in place which is reviewed on an annual basis and is approved by Cabinet and Council prior to the beginning of the new financial year.</p> <p>Departments within the Council consider different ways of generating income for the Council. In some cases methods have been</p>	<p>To promote the importance of income generation across the Council and raise the awareness of the importance of commercialisation as a funding source for the council in future, a corporate income charging and collection strategy is being developed.</p>



System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<p>With these challenges Councils inevitably have difficult choices to make.</p> <p>A strategic approach to income and charging will provide guidance and structure to help deliver a consistent approach throughout the organisation.</p> <p>Our work considered whether:</p> <ul style="list-style-type: none"> <li>• The Council undertakes regular reviews of their approaches to charging, both within service areas and across the whole council.</li> <li>• An effective strategy is in place clearly outlining the Councils objectives for income for the present and future, and appropriate actions and agendas exist to ensure these objectives are achieved successfully.</li> </ul>		<p>implemented, including Operational Services introducing the green waste charging. Through discussion with Leisure Centres, we also saw areas where improvements have been made.</p> <p><b>Areas for Improvement</b></p> <p>There are no corporate objectives or a written corporate strategy or policy defining the Councils objectives for income charging and collection. There are no key actions in place to support an income strategy allocating roles and responsibilities for income collection and charging. The financial strategy does not cover income collection and charging in detail.</p> <p>Every year the Council conducts service wide review of fees and charges. However the results of the last review (which occur annually as part of the budget process) does not show a robust 'Council wide' challenge of the 'whether to charge/ what to charge for' services.</p>	<p>As part of this, current collection and charging arrangements will be reviewed and will inform the strategic objectives for the revised income strategy.</p>

### Audit Opinions and Priorities for Actions

Audit Opinions	
<p><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></p> <p><i>Our overall audit opinion is based on 5 grades of opinion, as set out below.</i></p>	
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.