



Herefordshire Council

Report of Internal Audit Activity

Plan Progress 2016-17 November 2016

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Our audit activity is split between:

- Operational Audit
- Key Control Audit
- Governance, Fraud & Corruption Audit
- IT Audit
- Special Reviews

See Appendix A for individual audits

Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 23 March 2016.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- School Themes
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Director of Resources (Section 151 Officer) following consultation with the Senior Management Team. This year's (2016/17) Plan was presented to this Committee on 23 March 2016.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Update 2016-17

Completed Audit Assignment in the Period

Audit Plan Progress

The summary of the Annual Plan for 2016/17 (Appendix C) highlights progress to date. Based on the findings of each review, an overall control assurance is offered. For a summary of Control Assurance Definitions, Categorisation of Recommendations and Risk Levels, please refer to [Appendix 'B'](#).

It is important that Members are aware of the status of audits as this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

As can be seen from [Appendix 'C'](#), the following audits have been progressed to date:

Operational:

- Completed, 3 reviews (1 reasonable, 2 partial)
- Draft Report, 3 reviews
- Discussion Report, 1 review
- In Progress, 8 reviews
- Not Started, 15 reviews
- Deferred to 2017-18, 1 review

Governance, Fraud and Corruption:

- In Progress, 1 review

Follow Up Reviews:

- Completed - 2 reviews
- In progress – 1 review
- Not started – 8 reviews

Update 2016-17

Completed Audit Assignment in the Period

Audit Plan Progress

Special reviews:

- Completed, 2 reviews

School Themes –: SFVS – Schools Financial Value Standard

- Completed, 3 schools (1 partial, 2 reasonable)
- Draft Report, 3 schools

Key Control:

- Not Started, 8 reviews

Grants:

- Complete, 3 Claims
- Removed, 1 Claim

Completed Audit Assignments in the Period

Audit Plan Progress

Audits completed to final report since my last update are:

Operational

- Client Finances– Partial
- Car Parking Income and Enforcement – Partial
- Cash Handling and Collection –Reasonable

Schools - Schools Financial Value Standard

- Completed, 3 Schools – (1 Partial, 2 Reasonable)

Special Reviews

- Special Review - Complete

Grant Certification

- Local Transport Block Funding – Reasonable
- Troubled Families - Reasonable

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Report on Significant Findings

Where a review has a status of 'Completed' and has been assessed as 'Partial' or 'No Assurance' or with a 'High' corporate risk, I will provide further detail to inform Members of the key findings (Priority 4 and 5) identified. For the audits completed since my last report four audits - Client Finances, Car Parking Income and Enforcement, and two Schools have been assessed as Partial assurance (some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives). In addition, there was one priority 4 finding in the Cash Handling and Collection audit which was assessed as Reasonable.

None were assessed to have a 'High' corporate risk.

The full detail of each significant finding and the agreed management action and implementation is detailed on pages 13-16.

Client Finances – Partial

The Council provides a financial management service where it has been determined that the service user is unable to manage their finances, either as;

- 1) An Appointee to manage a service user's benefits on their behalf, or
- 2) A Deputyship where a Court Protection Order is in place, in this instance the Council will manage all finances and property

The Office of the Public Guardian (OPG) are the governing body, and has oversight of the service the Council provides.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

Overall the service has been delivering against its various responsibilities with some well controlled areas:

- Original Court Orders are present for granted Deputyships;
- the service was observed to have adequate resources to manage the operations of the service;
- there is a dedicated system to record client's records, which is separate to the Council's Finance system.

There were no significant findings however a number of weaknesses, particularly in monitoring, recording, declaration of interest and non-disclosure agreements were identified resulting in ten priority 3 recommendations and a partial assurance opinion.

Car Parking Income and Enforcement - Partial

The Council operates a number of car parks across Herefordshire comprising around 4,514 off-street parking spaces and an estimated 1,600 controlled (generally by limited waiting) on-street parking spaces. The Council is responsible for the enforcement of the on-street parking restrictions throughout Herefordshire and the enforcement of all off-street car parks controlled or managed by them. The Council employ Civil Enforcement Officers (CEO's) who issue Penalty Charge Notices (PCN'S) to those vehicles that are parked in contravention of the Traffic Regulation Order (TRO) (parking restrictions) in force in the area in which the vehicle was parked. Under the powers of the Traffic Management Act (TMA) 2004 the Council also carries out enforcement of its off-street car parks within the 'rules and regulations' contained within the Off Street Parking Place Order.

However, a number of weaknesses particularly in process were identified. Nineteen recommendations (three priority 4 and sixteen priority 3) were made resulting in a partial assurance being given. Eight of the recommendations relate to the Revenues Team processes and the remainder to the Parking Services Team processes.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

Overall the service has been delivering against its various functions with some well controlled areas.

- Car Park charges are regularly reviewed and approved by Cabinet with the most recent review resulting in an increase in charges effective as of February 2016. This decision was shown to be well documented with evidence to support the reasoning for implementation.
- The Council has used tools such as a Priorities and Budget Consultation 2016-2020 to involve the public in discussions around raising car park charges and also had a consultation with Alpha Parking to consider key areas of Parking Services.
- The Council is clear in all reports taken to Cabinet as to the legal requirements and implications for car park income and are clear what surpluses will be spent on.
- The Council has both Company Public Liability Insurance and Professional Negligence Insurance in place to cover; employee theft, third party theft and staff/user accident however a weakness was identified with cover for cash in transit and cash held.
- Sampling showed that sufficient detail was taken in all samples when a PCN was issued
- The budgets for car parks are actively and frequently monitored

The cash collection and counting process required improvement in the following areas:

- Review of insurance arrangements regarding the transit and storage of the cash income
- In depth reviews of cash discrepancies identified between the cash counting machine and the P&D machine audit ticket
- Review of the cash security collection process to ensure that all income is collected for banking (i.e. current weight limitations) and the contract with the security company is reviewed and updated to meet the Council's needs.

Appeals have been identified as not always being dealt with consistently and promptly across the officers within the Revenues Team. A more consistent approach is needed to ensure outstanding debt from the PCN's is collected wherever possible. The Council would also benefit from agreeing and implementing a policy in relation to persistent offenders to ensure they are actively dealt with.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

Cash Handling and Collection – Reasonable

The Council generally handle low levels of cash as customers are encouraged to pay for services by direct debit, online through the council website, or at the Post Office or Pay points.

Cash is accepted at the six local Customer Service Centres, mainly for trade refuse, green sacks and electricity cards; the total value of cash received in the last financial year was £317,000.

There are a number of other sites where Council Officers handle cash including:

- Market rents collection
- Hereford Library & Museum
- Crematorium Office

Petty cash floats are held at schools and at various Council locations; these balances are maintained on an imprest system. Excluding schools floats the total value of petty cash balances held is £4,675.

The procedures around cash handling and collection were generally found to be reasonable and well controlled, however there is a need for review and clarification to ensure that consistent policy is adopted across all cash handling sites. There were some security weaknesses around how cash is stored, however the level of cash handled by the Council is relatively low.

The review of petty cash claims identified some weaknesses where Petty Cash procedures had not been correctly followed. When the Council's procedures have been updated and communicated through further training of responsible officers, this should align consistency in practice and improve internal control.

There was one priority 4 finding where a petty cash float of £1,000 is held in a locked tin as there is no safe at this location. Under the Council insurance policy, petty cash balances are only insured up to a value of £500 where held in a locked receptacle (amounts above £500 should be stored overnight in a locked safe) and as such the storage of this petty cash float does not comply with the Councils insurance policy. Although the value of the float can be considered low; in terms of the risk of theft of cash this would be seen as an opportunity.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

Schools Financial Value Standard

The Schools Financial Value Statement (SFVS) helps schools to manage their finances and provides assurance to the Local Authority that they have secure financial management in place. The SFVS standard assessment form states Governing bodies/management committees have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors and management committees.

Each of the 25 questions in the SFVS requires an answer of Yes, In Part, or No depending on the extent to which the Governing Body feels that it complies with the criteria. On the returns, schools should indicate the main evidence on which the Governing Body has based its answers. In addition, any remedial action needed should be recorded. It is now a requirement for governors to monitor the progress of these actions to ensure that they are all cleared within specified deadlines.

Annual completion of the SFVS form is mandatory for Local Authority maintained schools'. A SFVS return signed by the Chair of Governors must be sent to the Local Authority each year.

Six schools were visited to assess compliance with the SFVS. Three reports are at draft report and three are completed. For the three final reports one was assessed as Partial assurance and two as Reasonable assurance. There were a significant number of well controlled areas and review of SFVS identified that in the main the schools are managing their finances and overall have secure financial management in place. Some areas were identified for improvement (21 priority 3 findings) and there were two priority 4 (significant) findings across the three reports that required more immediate action.

The significant findings identified weaknesses in the independent audit of the school fund which had not been audited for the last three years at one school and lack of evidence to support quotes/tenders for a sample of five higher value transactions at one school.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

A survey was sent to SWAP Partner Councils to establish how their pest control services are being delivered with regard to costs, resources and performance monitoring. The Partner Summary report has been shared with this Council and the Head of Regulatory and Development Management Services has requested to discuss the benchmarking with the Councils that contributed to the report.

Special Reviews

Unplanned work, special reviews or projects carried out on a responsive basis are requested by the Director of Resources (Section 151 Officer).

The special review reported as in progress in my last update has been concluded. A report has been provided to Senior Management.

Future Planned Work

As new and emerging risks are identified, any changes to the plan will be subject to the agreement of the Director of Resources (Section 151 Officer) with removal or deferral of audits to be formally agreed by the Audit Committee.

One additional audit – Catering Contract has been requested and four follow up reviews on partial assurance opinion audits identified for inclusion in the plan. The days to accommodate these audits have been taken from the remaining contingency days in the plan and in agreement with the Business Partner I propose that the audit - Telecare is deferred to quarter 1 of 2017-18.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Conclusion

Since my last update nine audits have been completed. Where low to medium control or administrative weaknesses are identified normal expectation is for reviewed areas to be assessed into the 'Reasonable' category of assurance. However, where the assessed area falls below 'Reasonable', management is expected to address the risks identified as a matter of priority and monitor their progress against the agreed action plan. Of the nine audits completed three have been assessed as Partial assurance and the significant findings have been reported in the table below. Five have been assessed as reasonable assurance and one is a non-opinion review.

Members can however take assurance that all recommendations have been agreed by management with agreed target dates for completion. Internal Audit will also complete a follow up review on all Partial assurance audits in 2017-18.

At the end of each audit review, a Customer Satisfaction Questionnaire is sent out to the service manager or nominated officer. The aim of the questionnaire is to gauge satisfaction against timeliness; quality; and professionalism. As part of the Balanced Scorecard presented to the SWAP Management Board, a target of 80% is set where 75% would represent a score of good. The current accumulative feedback for Herefordshire Council is 87%.

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
Car Parking Income and Enforcement					
<p>As cash levels have increased, the insurance arrangements have not been considered for cash in transit and cash stored at the Town Hall.</p>	<p>The Council is not insured for cash in transit or cash stored at the Town Hall once it exceeds the limits set out in the insurance policy.</p>	<p>The Head of Technical and Parking Services in liaison with the Insurance Officer has agreed to investigate the Council's options in relation to the collection of the cash income from the Pay and Display machines to ensure collection arrangements are covered by the Council's insurance policy.</p>	<p>The insurance officer has investigated and advised that no insurer will insure amounts above the existing limits, they only allow 2 people to carry £6,000 and anything over £10,000 must be handled by a security company. The limits are designed to protect the individual not the company. The cash collection arrangements have been amended to comply with the current insurance requirements. The new arrangements were implemented on 18 July 2016.</p>	<p>Complete</p>	<p>Head of Technical and Parking Services</p>

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
		<p>The Senior Development Team Leader in liaison with the Head of Corporate Finance has agreed to ensure that any cash not secured in the safe is held in a strong room to ensure it is in line with the Council's insurance arrangements and to ensure the safe limit is monitored closely to ensure its limit is not breached.</p>	<p>Responsibility for cash counting is due to transfer to the Parking team. The intention is for the Parking team to move to the town hall in November 2016. Overseeing of cash collection will form part of their daily duties which will include ensuring only cash covered by insurance will be held on site.</p>	<p>31 December 2016</p>	<p>Parking Services Manager</p>
<p>The cash collection contract is dated 1994, there is no updated version available and is not present on the contracts register.</p>	<p>The Contract for cash collection may not be meeting the current needs of the Council or providing value for money.</p>	<p>The Senior Development Team Leader in liaison with the Head of Corporate Finance has agreed to ensure the contract that is held with the cash collection service is reviewed and reflective of the Council's current needs i.e. the weight amounts to be collected daily.</p>	<p>The contract and review dates will be included in the contracts register and actioned as appropriate.</p>	<p>31 December 2016</p>	<p>Head of Corporate Finance</p>

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
Cash Handling and Collection					
<p>A petty cash float of £1,000 is held at one site in a locked tin; there is no safe at this location. Under the Council insurance policy, petty cash balances are only insured up to a value of £500 where held in a locked receptacle (amounts above £500 should be stored overnight in a locked safe).</p>	<p>Cash held at this site is not held securely overnight and would not be covered under a claim on the Council's Insurance policy for amounts above £500.</p>	<p>The Finance Transactional Support Officer (Hoople Ltd) in liaison with the Head of Corporate Finance has agreed to ensure that the Petty cash float held at the site is securely stored overnight in an appropriate safe, to comply with the Council's Insurance requirements.</p>	<p>In order to comply with the Council's insurance requirements, Lead Manager Business Support is in the process of purchasing a safe, in the meantime the petty cash tin is placed away from the reception, and the tin can only be accessed by either the business support manager or business support team leader.</p>	<p>31 December 2016</p>	<p>Head of Corporate Finance</p>

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
Schools - SVFS					
There was no evidence of quotes/tenders sought for a sample of five high value transactions.	There is a risk that the School is not achieving best value for money.	The Chair of Governors has agreed to ensure the best value statement is reviewed and approved by the Full Governing Body and wherever possible the School ensure they are achieving best value for money by ensuring the appropriate quotes are obtained.	Best Value Statement will be reviewed and approved by the Finance and Staffing Committee, then will be reviewed yearly thereafter. The Finance Policy and Procedures Document are going to be reviewed and therefore school will ensure best value is sought through following the processes outlined.	31 March 2017	Finance and Staffing Committee and Headteacher
The School Fund account has not been audited for the 2013/14, 2014/15 or 2015/16 financial years.	Without an independent audit, assurance cannot be given that the fund records are accurate and complete.	The Chair of Governors has agreed to ensure the school fund account is audited for 2013/14, 2014/15 and 2015/16 financial years and then yearly thereafter.	The School Business Manager has approached a local auditor who will make a decision by the end of this week. Years 13/14, 14/15 will then be audited as soon as possible. 15/16 accounts ended 31st	31 December 2016	School Business Manager

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
			August and I have therefore only just received final bank statements etc.		