# KPMG

*cutting through complexity ™*

Herefordshire Council

**Summary report
2013/14**

**April 2014**

# Contents

**Darren Gilbert**

**Director**

**KPMG LLP (UK)**

**Tel: 07768 462015**

darren.gilbert@kpmg.co.uk

**Mukhtar Khangura**

**Internal Audit Manager**

**KPMG LLP (UK)**

**Tel: 07876 217128**

mukhtar.khangura@kpmg.co.uk

This Report is CONFIDENTIAL and its circulation and use are RESTRICTED.

This report has been prepared for Herefordshire Council ("The Council") by KPMG LLP ("KPMG") on the basis set out in KPMG's Engagement Letter addressed to the Council dated 30 March 2012 and should be read in conjunction with the Engagement Letter.

This report is for the benefit of the Council only and has been released on the basis that it is confidential and is subject to agreed disclosure restrictions and will not be updated.

KPMG's work was designed to meet the Council's agreed requirements and particular features of the engagement were determined by the Council's needs at that time. This Report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against KPMG other than the Council for any purpose or in any context. Any party other than the Council that obtains access to the Report or a copy and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG does not assume any responsibility and will not accept any liability to any party other than the Council.

# 1. Summary

**KPMG has provided the Internal Audit Service to Herefordshire Council to 31 March 2014. This report provides a summary of the work completed.**

### Introduction

KPMG has provided an Internal Audit service to Herefordshire Council ("the Council") to 31 March 2014. Our work was undertaken in accordance with the 2013/14 Annual Internal Audit Plan, approved by the Audit and Governance Committee.

In February 2014, the Council decided to engage another supplier to provide the Internal Audit Service to the Council from 1 April 2014. It was agreed that KPMG would provide a short report setting out our findings to date and any significant issues arising (Section 2).

### Input into Annual Internal Audit Opinion

We recognise that the Council's new Internal Audit providers will give an Annual Internal Audit Opinion based on the work which they will complete.

As part of our work to date we have not identified any issues that would prevent us from providing an overall adequate opinion, except for the areas listed as "Limited" on Page 4.

### Role of Management and Internal Audit

Under the Accounts & Audit Regulations 2011, the Council has a duty to ensure that its financial management is adequate and effective, that there is a sound system of internal control and robust risk management arrangements are in place.

The primary responsibility for maintaining effective risk, control and governance arrangements rests with management. It is management's responsibility to establish and maintain the systems of internal control so that activities are conducted in an efficient and well-ordered manner. This management responsibility is devolved under Section 151 of the Local Government Act 1972 to the Council's Chief Financial Officer.

Internal Audit is the independent appraisal function established by management to review the Internal Control System as a service to the Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

Internal Audit also acts as an aid to management and produces reports as a result of each of the reviews undertaken. It works in partnership with management to find solutions to any issues identified and seeks its agreement to any recommendations for improvement.

# 2. Coverage

**We graded four areas as "Substantial", six areas as "Adequate" and four areas as "Limited".**

### Work completed and Key Findings

We made 61 recommendations to improve the control environment. The tables on page 4 show the overall assurance grades we have given for the reports issued in the period and the priority and risk levels of the recommendations that were made.

Four areas have been graded as 'substantial assurance', these were Council Tax/NNDR, Benefits, Access Controls (IDOX and Academy) and Troubled Families. Six areas were graded as "adequate assurance", these were, Treasury Management, Procurement, General Ledger, ISO 27001, IT Strategy including Benefits Realisation and Local Welfare Provision Four areas were graded as "limited assurance", these were Data Protection (Follow Up), Income Collection (Follow Up), Places and Communities - Public Health – Food Licensing (Follow Up) and the Gypsy and Traveller function.

We previously reviewed the Council's Data Protection function in 2013 and we graded the area as providing "Limited Assurance". As part of our current review we noted that while the Council has made good progress in improving data protection controls and processes since our initial review, further work was required to ensure that a fully effective control framework is in place that prevents breaches of the Data Protection Act 1998 ("the Act").

In 2013 we reviewed the process and controls which the Council has in place to ensure income due for the rent of its Industrial Buildings was fully collected in a timely manner. We reported that significant work was required in this area to ensure rents were being collected satisfactorily. As part of our current review of this area we noted that while some progress has been made in the income collection process, robust controls have still not been implemented which ensure that all rental income due to the Council is being billed and collected.

We reviewed the Council's Public Health (Food Hygiene) function in 2013 and issued a "Limited Assurance" opinion. We graded the function as providing "Limited Assurance" on conclusion of our current follow up review. We noted that one significant area of non-compliance still exists; this is in respect of the Council's ability to complete a full programme of food hygiene inspections each year in line with the Food Law Code of Practice. This risk was recognised in the report that was presented to the Regulatory Committee in June 2013 on the proposed food hygiene inspection programme for the current financial year. Given its significance, it is important that the Council keeps this decision under regular review.

We reviewed the Council's Gypsy & Travellers Service and identified that the Council does not have a comprehensive overall control framework in place to manage this area. The Service needs to strengthen and formalise controls which ensure that there is a record on the Council's ledger of all pitch rents and water charges falling due from tenants. This is so that formal recovery procedures can be instigated where tenants fall into arrears and that, if necessary, any income that is unrecoverable can be written off in accordance with the Council's Financial Procedure Rules. However, we acknowledge that following a recent change in management of this service, this situation is already being addressed. The outcome of our audit should assist management further with this improvement process.

The tables on the following page provide a summary of the reviews completed and the recommendations raised during 2013/14.

# 2. Coverage

**We graded four areas as "Substantial", six areas as "Adequate" and as four areas as "Limited".**

| # | Assignment | Grade |
|---|------------|-------|
| 1 | Treasury Management | Adequate |
| 2 | Income Collection (Follow Up) | Limited |
| 3 | Council Tax/NNDR | Substantial |
| 4 | Benefits | Substantial |
| 5 | ISO 27001 | Adequate |
| 6 | Procurement | Adequate |
| 7 | Access Controls, IDOX and Academy | Substantial |
| 8 | Data Protection (Follow Up) | Limited |
| 9 | Places and Communities - Public Health – Food Licensing (Follow Up) | Limited |
| 10 | General Ledger * | Adequate |
| 11 | Gypsy and Traveller Service | Limited |
| 12 | IT Strategy inc Benefits realisation * | Adequate |
| 13 | Local Sustainable Transport Fund  * | Not graded |
| 14 | Troubled Families | Substantial |
| 15 | Local Welfare Provision | Adequate |

| Assignment / Priority of recommendations | T | 1 | 2 | 3 |
|------------------------------------------|---|---|---|---|
| Treasury Management | 4 | - | 2 | 2 |
| Income Collection (Follow Up) | 1 | 1 | - | - |
| Council Tax/NNDR | 2 | - | - | 2 |
| Benefits | - | - | - | - |
| ISO 27001 | 5 | - | - | 5 |
| Procurement | 6 | - | 4 | 2 |
| Access Controls, IDOX and Academy | 3 | - | - | 3 |
| Data Protection (Follow Up) | 3 | - | 1 | 2 |
| Places and Communities - Public Health – Food Licensing (Follow Up) | N/A | N/A | N/A | N/A |
| General Ledger | 2 | - | 2 | - |
| Gypsy and Traveller Service | 22 | 2 | 16 | 4 |
| IT Strategy inc Benefits realisation | 2 | - | 2 | - |
| Local Sustainable Transport Fund  (Not graded) | 1 | - | - | 1 |
| Troubled Families | 4 | - | - | 4 |
| Local Welfare Provision | 6 | - | 2 | 4 |
| **Total** | **61** | **3** | **29** | **29** |

* These reports were draft as at 31 March 2014 and we are awaiting management responses.  KPMG will finalise these reports once responses are received.

# Appendix 1 - Audit Grades and Opinions

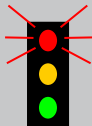**We rate overall reports and individual recommendations based on a set grading system.**

### Report Grading

The table below summarises the definitions we apply to the report grading system we use.

| Grade | Explanation |
|---|---|
| **Substantial** | No or priority three only recommendations.<br><br>(i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process). |
| **Adequate** | One or more priority two recommendations<br><br>(i.e. there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives - however, if not addressed the weaknesses could increase the likelihood of strategic risks occurring). |
| **Limited** | One or more priority one recommendations, **or** a high number of medium priority recommendations that taken cumulatively suggest a weak control environment<br><br>(i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and/or objectives; or result in an significant exposure to reputation or other strategic risks). |
| **No** | One or more priority one recommendations and fundamental design or operational weaknesses in more than one part of the area under review<br><br>(i.e. the weakness or weaknesses identified have a fundamental and immediate impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks). |

### Recommendation Grading

Following each review, we raise performance improvement observations. The priority of these can be defined as follows:

| Priority | Explanation |
|---|---|
| | **Priority One** - A significant weakness in the system or process which is putting the organisation at serious risk of not achieving its strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that any of the organisation's strategic risks will occur. Any recommendations in this category would require immediate attention. |
| | **Priority Two** - A potentially significant or medium level weakness in the system or process which could put the organisation at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on the organisation's reputation or for raising the likelihood of the organisation's strategic risks occurring. |
| | **Priority Three** - Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving the organisation's strategic aims and objectives. These are generally issues of good practice that we consider would achieve better outcomes. |