



## **Herefordshire Council**

Report of Internal Audit Activity  
Plan Progress 2015-16 Quarter 4

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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 (2015/16) Plan was presented to this Committee on 19 March 2015.

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

Update 2015-16

## Completed Audit Assignment in the Period

### Audit Plan Progress

The summary of the Annual Plan for 2015/16 (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 'D'](#).

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

#### Operational:

- Complete, 11 reviews - (1 Substantial, 6 – Reasonable; 3 – Partial, 1 Non –Opinion )
- Draft Report, 2 reviews
- Discussion Document, 2 reviews
- In Progress, 8 reviews
- Not Started, 3 reviews

#### Governance, Fraud and Corruption:

- Complete, 3 reviews (Non-Opinion)
- In Progress, 1 review

#### Follow Up Reviews: (Non-Opinion)

- Complete, 5 reviews
- In Progress, 1 review

#### Special reviews:

- Discussion Document, 1 review
- In Progress, 1 review

## Completed Audit Assignments in the Period

### Audit Plan Progress

#### School Themes –: Pupil Premium

- Complete - 6 reviews ( 1 Substantial, 5 Reasonable)
- Complete - Themed review

#### Key Control:

- Complete , 4 reviews ( 2 Partial, 1 Reasonable)
- In Progress, 1 review

#### ICT Reviews:

- Complete, 4 reviews (2 Non-opinion, 1 Reasonable, 1 Partial)
- Draft Report, 1 review
- In Progress, 3 reviews

#### Grants:

- Complete, 4 Claims,

#### Removed:

- 6 reviews (Elections, Energy Supply Contract, Troubled Families, Incident and Problem Management, Land Charges, Road Maintenance (Follow up)

## Completed Audit Assignments in the Period

### Audit Plan Progress

Audits completed to final report since my last update are:

#### Operational

- Licensing – Partial
- Waste Collection Contract – Substantial

#### ICT

- Mobile Phone Usage and Strategy – Partial
- LAC and Fostering FWi Projects – Non-Opinion

#### Key Control

- Payroll – Partial

#### **Waste Collection – Substantial**

The audit of Waste Collection reviewed the contract service standards in relation to the Waste Collection contract. Waste collection covers general refuse, recycling, trade and clinical waste collection, and trade recycling. The total net budget for all services in 2015-16 is £3,257,422. The audit was given Substantial assurance the highest control assurance level. There were only two priority 3 findings with a significant number of well controlled areas identified during the audit. The waste collection contract is managed effectively, and there are appropriate monitoring mechanisms in place to ensure that the contract remains effective between the two parties.

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

Appendix C is a summary of the Annual Plan – a list of all audits as agreed in the Annual Audit Plan 2015/16. 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.

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 issues identified. For the audits completed since my last report three audits - Mobile Phone Usage and Strategy, Licensing and Payroll and 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).

Mobile Phone Usage and Strategy and Payroll are reported in Appendix B1 – Exempt Item.

The full detail of each significant finding and the agreed management action and implementation is detailed in Appendix B1.

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

### Licensing – Partial Assurance

Licensing is a statutory function of the Council, and the service is responsible for regulating a large number of activities. It also must ensure it is a cost-neutral service to the Council in order to comply with EU directives. Key licence areas include activities under the Licensing Act 2003 (e.g. Premises Licenses, Temporary Event Notices), the Gaming Act 1968 (e.g. Amusements with Prizes), taxi licensing under various legislation, and Animal Licensing (e.g. Pet Shop Licences). The objective of the audit was to ensure that resources are used effectively to provide a transparent, consistent, and customer-focused licensing service.

Three priority 4 findings - important findings that need to be resolved by management were identified during the review and eight priority 3 findings.

There were a number of well controlled areas and the service ensure that licences are issued promptly and is proactive in identifying new activities that require a licence. The main area for service improvement is the need to improve its records of authorisation; as the software in use has weak controls in this area and it is critical that hardcopy records of licences officially granted by the Council are available. The three priority 4 findings identified the following weaknesses:

- A number of sampled licenses across various licence types did not have evidence of authorisation for the grant of that licence; as Civica allows any user to print a blank licence this is a weakness in a core control.
- Electronic signatures are available in a central location and may be used to authorise licences; however, this means that the Council has no audit trail to demonstrate who has approved a licence.
- The Council does not currently publish information regarding Licensing decisions as required by the Openness of Local Government Bodies Regulations 2014

All findings have been agreed with management with a target of 29 January 2016 for two priority 4 findings and 31 July 2016 for the other priority 4 finding as it will from part of the constitution review.



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”.

As part of the mobile phones audit a potential saving of approx. £10,000 has been identified pending investigations into actual use of mobile phones.

## Special Reviews

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

There has been no requests for special reviews since my last report.

## Future Planned Work Continued

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.

There has been no requests for additional work since my last report.

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 SWAP have completed five audits. 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 five audits completed three have been assessed as Partial assurance and the significant findings have been reported above.

Payroll is a key financial system and it is essential that key controls are operating effectively. The Director of Resources commissioned the focus of this review to give management either assurance that controls are operating effectively or guidance on areas where controls are weak or not in place. A number of significant findings have been reported. Members can however take assurance that all recommendations have been agreed by management with agreed target dates for completion and the majority of significant findings have already been completed. Internal Audit will also complete a follow up review on all Partial assurance audits in 2016-17.

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 85%.

# Internal Audit Plan 2015-16

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

APPENDIX B

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

Weakness Found	Risk Identified	Recommendation	Management's Agreed Action	Agreed Date of Action	Responsible Officer
<b>Licensing</b>					
<p><u>Licence Authorisation Controls</u>                      The Civica system contains a fundamental weakness: no user restrictions are in place to prevent any system user from creating a blank licence. Consequently, licences are authorised prior to issue by one of three Council officers: the Team Manager - Licensing or the two Senior Licensing Officers. However not all licences require a signature (for example Premises licences are unsigned).                      Testing found that evidence of authorisation is not always retained on file                      If the Council does not retain records of licence authorisation, a licence may have been issued without due authorisation, resulting in licence holders operating contrary to required regulations. This may hinder any</p>	<p>A number of sampled licenses across various licence types did not have evidence of authorisation for the grant of that licence; as Civica allows any user to print a blank licence this is a weakness in a core control.</p>	<p>I recommend that the Team Manager – Licensing ensures that scans or photocopies of all licence authorisations are kept on file.</p>	<p>All licences will be manually signed and copies retained. At the time of signing two copies will be signed one to send to the applicant and one retained either physically or electronically. Some licences are not ones which can be signed as they are national standard forms; in these cases we are introducing a serial numbering system which will identify the correct licence. The check list will be retained to indicate which officer authorised the licence. If we are able to modify the form we will add an authorisation section at the end of the licence. I am making enquiries regarding this option, if we are able to do this, we will discontinue the serial numbering system.                      We are working toward a paperless system, however, the controls will include having a signed copy of all licences available, this may not be possible within a physical file, but will</p>	<p>25 January 2016</p>	<p>Team Manager - Licensing</p>

# Internal Audit Plan 2015-16

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

APPENDIX B

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

Weakness Found	Risk Identified	Recommendation	Management's Agreed Action	Agreed Date of Action	Responsible Officer
relevant enforcement action, as the Council would not be able to demonstrate its decision on the licence.			be retained to demonstrate an original signature.		
<p><u>Use of Electronic Signatures</u> As noted above, the Civica system has no user restrictions in place to prevent any system user from creating a blank licence. Supplemental to this, the Team Manager – Licensing and two Senior Licensing Officers' signatures are available electronically in a central location as electronic signatures are used in some licence types. However, this means that an authentic licence may be prepared and issued by any member of staff with access to Civica and the folder structure. It is unlikely that the Council could prove conclusively who has issued a given licence, if challenged on a</p>	Electronic signatures are available in a central location and may be used to authorise licences; however, this means that the Council has no audit trail to demonstrate who has approved a licence.	I recommend that the Team Manager – Licensing ceases the use of electronic signatures on licences and removes electronic signatures from the Council's systems; if electronic signatures are needed (e.g. for mail merge letters) they should be created on a temporary basis and deleted after use.	These will be deleted and not used without written consent from the owner of the signature. Further they will never be used on a licence.	25 January 2016	Team Manager – Licensing

# Internal Audit Plan 2015-16

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

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Weakness Found	Risk Identified	Recommendation	Management's Agreed Action	Agreed Date of Action	Responsible Officer
licence with no record available.					
<p><u>Transparency Requirements</u> It is a requirement under the provisions of The Openness of Local Government Bodies Regulations 2014 that where a decision is delegated to an officer to grant a permission or licence, that decision is recorded and available for inspection. When a member or officer takes a decision on matters that are the responsibility of the council's executive, this must be recorded in writing. The form of the written record is for the council to decide, but the following should be included:</p> <ul style="list-style-type: none"> <li>• details of the decision and the date it was made;</li> <li>• reasons for the decision;</li> <li>• any other options considered and why those options were rejected;</li> <li>• details of any conflict of</li> </ul>	The Council does not currently publish information regarding Licensing decisions as required by the Openness of Local Government Bodies Regulations 2014	I recommend that the Solicitor to the Council – People and Regulatory provides guidance to the service areas affected by the Openness of Local Government Bodies Regulations 2014 on how to meet the requirements of the regulations, and ensures that service areas are publishing the required information in accordance with that guidance.	This will form part of the constitution review. Once the new constitution is in place (anticipated May 2016) then any additional guidance and implementation support will be provided.	July 2016	Solicitor to the Council – People and Regulatory

# Internal Audit Plan 2015-16

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

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Weakness Found	Risk Identified	Recommendation	Management's Agreed Action	Agreed Date of Action	Responsible Officer
<p>interest declared by any executive member consulted in relation to the decision; and</p> <ul style="list-style-type: none"> <li>a note of dispensation granted in respect of any declared conflict of interest</li> </ul> <p>The Council has not yet finalised arrangements in place to provide this information to the public, and consequently may not be compliant with Regulations.</p>					

# Audit Framework Definitions

## Control Assurance Definitions

## Appendix C

<b>Substantial</b>	▲ ★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
<b>Reasonable</b>	▲ ★★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	▲ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>None</b>	▲	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

## Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

- Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

## Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.