

FINAL AUDIT REPORT

GIFTS & HOSPITALITY

AUDIT AND CONSULTANCY SERVICES



<b>DATE:</b>	<b>21 June 2011</b>
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<b>DISTRIBUTION LIST:</b>	<b>Strategic Director of Finance, Policy &amp; Governance Corporate Legal Manager Risk Manager External Auditors – Grant Thornton</b>

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## MANAGEMENT SUMMARY

<b>TITLE OF AUDIT:</b>	<b>Gifts &amp; Hospitality</b>
<b>SERVICE:</b>	Legal Services
<b>REPORT ISSUED TO:</b>	Strategic Director of Finance, Policy & Governance Corporate Legal Manager Risk Manager External Auditors – Grant Thornton
<b>ASSURANCE LEVEL:</b>	<b>Substantial</b> (see Appendix B for definition)

The acceptance of gifts and hospitality by officers and members reflects directly on the perception of the probity of the Council. The Council's Code of Conduct lays down the foundations for appropriate behaviour and for officers, is supported by a Gifts and Hospitality Policy.

The audit has identified that gifts and hospitality received are recorded in registers maintained by each directorate or by location. The registers show adequate detail including how the gift or item of hospitality was used. Occasions were noted where gifts were consumed within the receiving service by the recipient, although the Policy states that these should be raffled for the Chairman's Charity. Also, periodic review processes are not always completed with the planned frequency which could lead to procedural errors not being identified promptly.

<b>HIGH RISK RECOMMENDATIONS</b>	2
<b>MEDIUM RISK RECOMMENDATIONS</b>	3
<b>LOW RISK RECOMMENDATIONS</b>	0

### **CONTROL WEAKNESSES (Relating to High Risk Recommendations only):**

- Not all gifts are being passed to the Chairman's charity in accordance with policy;
- The declaration form for gifts and hospitality received by members does not specify what was done with the item.

### **AGREED ACTIONS (Relating to above Control Weaknesses):**

- Reminder to be issued to confirm correct procedure;
- Declaration form to be revised as permitted by the legislative framework.



## **2. OVERALL CONCLUSION AND RISK ASSESSMENT**

- 2.1 The audit has highlighted that although processes and procedures are in-place covering the receipt of gifts and hospitality, not all aspects of the policy are being followed consistently. This could lead to inconsistency in the treatment of gifts received.
- 2.2 Key risks are being managed as follows:
- Gifts and items of hospitality are being recorded.
- 2.3 The Action Plan at Appendix A shows details of the five recommendations made (two prioritised as High Risk).
- 2.4 Audit risk has been assessed as medium in the 2010-11 Audit Plan. This assessment is based on an evaluation of the Audit Risk Assessment Sheet and the findings of the last audit. Following completion of this audit the assessment remains unchanged.



<b>Subject Area: Policy</b>	<b>Reference: H1</b>
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Ref.	Findings	Risk Associated with Finding	Recommendations	Agreed Action and Responsible Officer	Target Date For Completion
1.	<p>The Gifts &amp; Hospitality Policy sponsored by the Head of Legal &amp; Democratic Services (now Corporate Legal Manager) has a next review date of April 2008.</p> <p>A review is therefore due.</p>	The existing policy may not meet current requirements.	<p>The Gifts &amp; Hospitality Policy should be reviewed and updated as necessary, taking into consideration the materiality of the item and the context in which it was offered.</p> <p><b>Priority: Medium</b></p>	<p>Policy to be reviewed and updated as necessary.</p> <p><b>Responsible Officer:</b> Corporate Legal Manager</p>	Dec 11



<b>Subject Area: Acceptance of Gifts</b>	<b>Reference: H2</b>
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Ref.	Findings	Risk Associated with Finding	Recommendations	Agreed Action and Responsible Officer	Target Date For Completion
2.	<p><b>Officers</b> A review of the various gifts and hospitality registers for officers identified some instances where chocolates donated to officers were accepted and consumed by the recipient (or shared with colleagues). A Special Consent Form had not been completed where considered appropriate.</p> <p>Section 2a) ix) of the gifts &amp; Hospitality Policy states that unsolicited gifts should be passed to the Chairman of the Council to be raffled for the Chairman’s charity.</p> <p><b>Members</b> During 2010-11 there were four notifications made by members. The current form used by members does not require confirmation of what was done with the gift.</p>	<p>Non-compliance with the Policy may lead to doubt over whether officers are acting in the public interest.</p> <p>The lack of clarity over the outcome of gifts received by members could lead to doubt over whether they have acted in the public interest.</p>	<p>Officers should be reminded of the need to pass unsolicited gifts to the Chairman for inclusion in the Chairman’s Raffle and to complete a Special Consent Form where appropriate.</p> <p><b>Priority: High</b></p> <p>The “Notification by Member of a Local Authority of Receipt of Gift or Hospitality over the value of £25” form should be amended to include a section confirming how the gift was disposed of / reason for</p>	<p>A reminder will be issued.</p> <p><b>Responsible Officer:</b> Corporate Legal Manager</p> <p>The style / content of the form may be governed by legislation and this will be checked. Changes will then be made as permitted by the</p>	<p>Aug 11</p> <p>Oct 11</p>



			acceptance.  <b>Priority: High</b>	legislative framework.  <b>Responsible Officer:</b> Corporate Legal Manager	
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<b>Subject Area: Review Processes</b>	<b>Reference: H3</b>
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Ref.	Findings	Risk Associated with Finding	Recommendations	Agreed Action and Responsible Officer	Target Date For Completion
3.	<p>Guidance on the Intranet states that Gifts &amp; Hospitality registers should be reviewed every 6 months by Strategic Directors. The current Gifts &amp; Hospitality Policy, however, does not make any reference to reviews and therefore it is currently best practice and not a policy requirement to conduct periodic reviews. Evidence of reviews, where undertaken, is recorded on the registers and the following points were noted:</p> <ul style="list-style-type: none"> <li>• There was no evidence of review of the Chief Executive's or Planning, Housing &amp; Enterprise registers;</li> <li>• Reviews of the Finance, Policy &amp; Governance register are undertaken at intervals of 8-9 months.</li> </ul>	<p>Inappropriate entries or failings in procedure may not be highlighted and corrected promptly.</p>	<p>Strategic Directors should be reminded of the guidance on undertaking a six monthly review of registers.</p> <p><b>Priority: Medium</b></p> <p>At the next Policy update a section regarding the review of registers should be added.</p> <p><b>Priority: Medium</b></p>	<p>A reminder will be issued.</p> <p><b>Responsible Officer:</b> Corporate Legal Manager</p> <p>To be incorporated as part of the Policy review.</p> <p><b>Responsible Officer:</b> Corporate Legal Manager</p>	<p>Aug 11</p> <p>Dec 11</p>

## ASSURANCE, PRIORITY AND RISK DEFINITIONS

### Assurance Levels

Assurance Level	General Definitions
Full	<p><b>Evaluation opinion:</b> sound system of control designed to achieve the system objectives; and  <b>Testing opinion:</b> the controls are being consistently applied.</p> <p>Full Assurance will be attributed to a system where no recommendations are made or where in the auditor's judgement the recommendations relate to actions that are considered desirable and which should result in enhanced control or better value for money.</p>
Substantial	<p><b>Evaluation opinion:</b> basically a sound system of control but there are weaknesses which put some of the control objectives at risk, and/or;  <b>Testing opinion:</b> the level of non-compliance with some controls may put some of the system objectives at risk.</p> <p>Substantial Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to significant risks.</p>
Moderate	<p><b>Evaluation opinion:</b> basically a sound system of control but there are some more significant/serious weaknesses which put system objectives at risk, and/or;  <b>Testing opinion:</b> the level of non-compliance with some controls may put certain system objectives at risk.</p> <p>Moderate Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to more significant risks.</p>
Limited	<p><b>Evaluation opinion:</b> weakness in the system of controls are such as to put the system objectives at risk, and/or;  <b>Testing opinion:</b> the level of non-compliance puts the system objectives at risk.</p> <p>Limited Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered imperative to ensure that the Council is not exposed to high risks.</p>
No	<p><b>Evaluation opinion:</b> control is generally weak leaving the system open to significant error or abuse, and/or;  <b>Testing opinion:</b> significant non-compliance with basic controls leaves the system open to error or abuse.</p> <p>No Assurance will be attributed to a system where in the auditor's judgement they can place no reliance of the controls and procedures in operation either because they do not exist or because they are weak leaving the system open to abuse or error.</p>



### **Priority Levels in Action Plan**

Specific findings and recommendations documented in the attached action plan have been prioritised in relation to potential risk as follows:

High:	Fundamental control requirement needing implementation as soon as possible;
Medium:	Important control that should be implemented; and
Low:	Pertaining to Best Practice.

Risk may be viewed as the chance, or probability of one or more of the organisation's objectives not being met. It refers both to unwanted outcomes which, might arise, and to the potential failure to realise desired results.



### **STATEMENT OF RESPONSIBILITY**

- a) We take responsibility for this report which is prepared on the basis of the limitations set out below.
- b) The matters raised in this report are only those, which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the strengths and weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented.
- c) The performance of internal audit work should not be taken as a substitute for management's responsibilities for the application of sound practices. We emphasise that the responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist.
- d) Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity should there be any, although our audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.
- e) Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance. Effective implementation of our recommendations by management is important for the maintenance of a reliable internal control system.
- f) This report has been prepared solely for your use and that of North Hertfordshire District Council as a whole, and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.