

TITLE OF REPORT: AUDIT AND CONSULTANCY SERVICES – ANNUAL AUDIT REPORT 2010-11

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

1. PURPOSE OF REPORT

1.1 The purpose of this report is for members of the Finance, Audit and Risk Committee (the Committee) to receive and consider:

- Audit and Consultancy Services' (Internal Audit) opinion on the effectiveness of North Hertfordshire District Council's internal control environment for the financial year 2010-11;
- Summaries of internal audit work undertaken during the period February to May 2011 as they relate to the Annual Audit Plan 2010-11;
- Internal Audit's year end position against the 2010-11 annual audit plan; and
- Internal Audit's year end performance against the 2010-11 Internal Audit Performance Indicators.

2. FORWARD PLAN

2.1 This report does not contain a recommendation on a key decision and has not been referred to in the Forward Plan.

3. BACKGROUND

3.1 Under the requirements of the CIPFA 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006' (the Code), the Head of Internal Audit must present a formal annual report which addresses the following:

- An opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- The disclosure of any qualification to that opinion, together with the reasons for it;
- A summary of the audit work undertaken to formulate the opinion;
- Details of any issues judged to be relevant to the preparation of the Annual Governance Statement;
- A comparison of work actually undertaken against work planned and a summary of performance against agreed internal audit performance indicators;
- Results from the internal audit quality assurance programme; and
- Comment on compliance with the standards of the Code.

4. ISSUES

4.1 Opinion on the overall adequacy and effectiveness of the internal control environment at North Hertfordshire District Council

Internal control environment - a description

4.1.1 The Council's internal control environment comprises the policies, procedures and operations that are in place to:

- a) Establish and monitor the achievement of the Council's objectives;
- b) Identify, assess and manage the risks relating to the achievement of the Council's objectives;
- c) Facilitate policy and decision-making;
- d) Ensure the economic, effective and efficient use of resources and assets;
- e) Ensure compliance with established policies, procedures, laws and regulations;
- f) Secure the financial management of the Council and its financial reporting; and
- g) Provide for performance management and reporting thereon.

4.1.2 Essential to ensuring that the above objectives are achieved are:

- a) Managerial, financial and operational control systems such as policies, objectives and plans, budgetary systems, personnel arrangements and organisational structures etc;
- b) An effective risk management function;
- c) An effective internal audit function; and
- d) Effective review of the elements comprising an internal control environment by non-executive management.

An assessment of the Council's internal control environment

4.1.3 The internal audit opinion is derived from the work completed as part of the agreed Internal Audit annual audit plan including compliance with the managed audit protocol. Where relevant, consideration is also given to ad hoc advisory work that was carried out during the financial year.

4.1.4 On completion of an audit assignment, Internal Audit assigns a level of assurance to the audited area: full, substantial, moderate, limited or no assurance. An assurance level is not given to ad hoc work although where a significant matter is raised, a record is kept of the query made and the advice given.

4.1.5 Based on evidence derived from its work, Internal Audit concluded that with regard to key financial systems and those audits assigned substantial assurance or above, an **effective internal control environment** existed at North Hertfordshire District Council for the financial year 2010-11. This assessment indicates that key controls exist and as per Internal Audit testing are generally applied consistently and effectively and that overall effective corporate governance arrangements continue to be maintained,.

4.1.6 Internal Audit work undertaken outside these areas indicated that strengthening of key controls in a range of areas is required, with eight audits undertaken during 2010-11 concluding in the assignment of moderate assurance. Internal Audit concluded, therefore, that with regard to internal controls in the wider audit environment, an **adequate internal control environment** existed at North Hertfordshire District

Council for the financial year 2010-11. This assessment remains the same as that given to the wider control environment in 2009-10.

- 4.1.7 Within these systems there are generally adequate systems of control designed to achieve systems' objectives. However, there are a number of exceptions, weaknesses and levels of non-compliance, which put some of the control objectives at risk. There is, therefore, consequently some risk of negligence, loss, fraud, impropriety or damage to reputation.
- 4.1.8 An exploration of the reasons leading to the assignment of moderate assurance to an audit is laid out in paragraph 4.4.1 to 4.4.7 below.

4.2 Disclosure of any qualification and reasons for it

- 4.2.1 Based on the audit work undertaken during the 2010-11 financial year, there are no significant concerns that would give rise to any qualification of the internal audit opinion.

4.3 A summary of internal audit work undertaken to formulate the opinion

- 4.3.1 During the financial year 2010-11, Internal Audit finalised twenty eight projects which resulted in the production of a formal report and assurance level. This compares favourably to the nineteen audits finalised during 2009-10. Of the audits finalised in 2010-11, eleven were assigned substantial to full assurance (compared to three in 2009-10), ten substantial assurance (compared to nine in 2009-10) and seven moderate assurance (compared to seven in 2009-10). A list of the individual assignments and the level of assurance assigned to each can be found in Appendix A. The audit opinion on the overall adequacy and effectiveness of the Council's internal control environment was based in the main on the outcomes of this work. Also included in this assessment was the substantial assurance level given to the audit of the Hertfordshire Waste Partnership co-ordinated by the Audit Manager at Broxbourne Borough Council and a formal review of the awarding of the agency staff contract.
- 4.3.2 In addition, the audit opinion was informed by the substantial assurance levels that have been assigned to the two audits issued in draft since year end and the moderate assurance assigned to a further audit finalised post March 2011 (see Appendix A for audits in progress at year end).
- 4.3.3 A level of assurance has not yet been assigned to the two remaining audits-in-progress from the 2010-11 annual audit plan. It is anticipated that an update on these will be available for this Committee meeting.
- 4.3.4 Additional support has, where appropriate, been obtained from the thirteen formal follow-up audits carried out throughout the year and the advisory work undertaken.
- 4.3.5 Consideration has also been given to corporate governance arrangements covering, in addition to internal control, ethics, risk management and anti-fraud. Sound arrangements in these areas further contribute to embedding a sound governance culture across the Council.
- 4.3.6 Internal Audit undertook a proactive fraud review focussing on the Council's recruitment practices. Based on the test sample, it was found that job applications were being processed in line with the relevant policies and procedures.

- 4.3.7 The Council's Anti-fraud and Corruption Strategy and Anti-Money Laundering Policy and Guidelines were updated and approved at the December 2010 meeting of the Audit and Risk Committee. No investigations were undertaken under either policy during 2010-11.
- 4.3.8 A review of the Officer Conflicts of Interest arrangements in 2009-10, indicated that procedures needed to be enhanced and an update of the policy undertaken. A review of this policy was led by Legal Services with a draft being brought to the Audit and Risk Committee in February 2011. Further work is planned. The Council's Confidential Reporting Code has been revised, approved by Cabinet and relaunched.
- 4.3.9 In March 2011, Grant Thornton undertook a detailed examination of the files for three of the key financial systems audits for 2010-11. Their initial assessment indicates satisfaction with the working papers and reports provided and that reliance can be placed on Internal Audit work undertaken. Grant Thornton will provide their final judgement in the 2010-11 Annual Governance Statement and Audit Letter, to be reported later in the year.

4.4 Issues judged relevant for inclusion in the Annual Governance Statement

- 4.4.1 The following eight audits concluded during the financial year 2010-11 and to 31 May 2011 were given moderate assurance. Comments regarding their relevance for inclusion in the Annual Governance Statement (AGS) have been made for each.

Audit Title	Relevance to the AGS 2010-11
<i>Project Management and Programme Governance</i>	No matters deemed relevant. Information provided by the Performance and Risk Manager indicates that the recommendations made in relation to the development of corporate project management and programme governance arrangements for sub PRINCE2 non-IT projects have been addressed.
<i>Members Allowances</i>	Revision of the Members' Allowances Scheme
<i>Parking Services</i>	Audit followed up in-year. All recommendations implemented.
<i>Homeworking</i>	Audit followed up in-year. All key control issues addressed.
<i>Inward Investment</i>	No matters deemed relevant
<i>S106 Agreements</i>	Update of the Planning Obligations Supplementary document. Provision of access to the Acolaid system to Accountancy staff to facilitate reconciliations with the Integra system.
<i>Conflicts of Interest</i>	Draft policy brought to February 2011 Audit and Risk Committee meeting. No outstanding matters deemed relevant.
<i>Consultants</i>	Development of corporately agreed approval and monitoring arrangements including reporting of such information to a corporate group.

- 4.4.2 A summary of management actions agreed relating to those audits not deemed relevant for inclusion in the Annual Governance Statement and which had not been followed up in year is shown in the table below.

Audit Title	Agreed management actions
Inward Investment	<ul style="list-style-type: none"> To review the Council's approach to sourcing grant income

- 4.4.3 The number of audits assigned moderate assurance stabilised between 2009-10 and 2010-11. However, the three years prior to the current year showed a year on year increase as indicated in the table below.

Year	Audit Title
2007-08	Information and Records (Limited as moderate not used as an assurance level at this time)
	Section 106 Agreements (Limited as moderate not used as an assurance level at this time)
2008-09	Acolaid – NV Module
	Equalities and Diversity
	Performance Management
	Regulation of Investigatory Powers Act
	Transfer of Services into the CSC and LAGAN
2009-10	Environmental Enforcement
	RIPA
	Parks and Countryside
	Property Services
	Debt Recovery
	Information Assurance
	Business Continuity Planning
	Conflicts of Interest

- 4.4.4 Initial analysis indicates that a significant proportion of the audits at 4.4.1 and 4.4.3 relate to processes which cut across service areas and hence to operate effectively require the co-operation of groups of individuals. Additionally, the majority of the above audits were being carried out for the first time or significant time had elapsed since the previous audit.

- 4.4.5 All recommendations made during the financial year 2010-11 were analysed to see whether there were any key themes associated with a particular assurance level. Leaving aside the fact that moderate assurance audits tended to have the greatest number of recommendations, the following characterised a moderate audit.

- Non-compliance with Financial Regulations, Contract Procurement Rules and legislation
- The need for policy, procedural and process review and development
- A significant need to ensure that agreed procedures and processes are complied with and demonstrate policy compliance
- A need for training

It needs to be stressed that each moderate audit did not result in recommendations being made in all of the above areas.

4.5 Year end position against the Annual Audit Plan 2010-11

4.5.1 An amended 2010-11 audit plan was put to the Audit and Risk Committee for agreement in December 2010. The table below lists the amendments agreed by the Committee and the outcomes of such amendments. Of the 58 productive days released, approximately 34 were spent undertaking work for East Hertfordshire District Council which resulted in an income of £9,000 for the Council. The remaining productive days released were allocated to projects which took longer to complete than anticipated and governance, risk and control work including work on the Shared Internal Audit Service.

Audit title	Outcome of amendment
Recruitment and Retention	The recruitment element of this audit was incorporated into the Payroll audit. Retention is not viewed as a current risk to the Council and the 2011-12 audit planning process did not result in an audit of this area being included in the 2011-12 annual audit plan.
Leasing	This area was reassessed and identified as being of insufficient risk to require coverage in 2010-11. This area was not identified as presenting a risk to the Council as part of 2011-12 planning process and a date for audit coverage of this area has not been identified.
VAT	Incorporated in the Creditors and Debtors audits.
Environmental Stewardship	Further work was required in this area before it became auditable. An audit of this area is scheduled for 2011-12.
IT Strategy	Further work was required in this area before an audit could be undertaken. An audit of this area is scheduled for 2011-12.
Post Implementation Review (Covalent)	Following the merger of the risk and performance teams in April 2010, a BPI of covalent was carried out in June. The added value of carrying out a PIR was assessed as part of the annual planning process for 2011-12 and was deemed negligible. An audit of this area has been removed from the audit planning process.
Software licensing	Planned changes in this areas were programmed. An audit of this area is currently in progress.

4.5.2 In summary, as at 31st March 2011 the position against the 2010-11 annual audit plan was as follows:

Audit activity	2010-11	2009-10
Planned audit and consultancy assignments completed resulting in the issuing of an assurance report (Appendix A)	28	19
Planned audits in progress at year end (Appendix A)	4	9
Audit projects carried forward to new financial year	3	8
Ad hoc consultancy / advisory projects completed including policy reviews	12	2
Review exercises completed	2	3
Formal follow-up audits completed	13	13
Investigatory projects undertaken	4	0

Attached at Appendix B is the detailed position on 31 March 2011 against the annual plan 2010-11.

4.5.3 Summaries of work undertaken in the final two months of the financial year 2010-11 and the first two months of 2011-12 as projects related to the audit plan for 2010-11, are detailed in Appendix C to this report. Also included is an extract for the audit of the Hertfordshire Waste Partnership lead by Broxbourne Borough Council.

4.6 Year end position against the Internal Audit Performance Indicators

4.6.1 The performance of Internal Audit is measured against seven internal audit performance indicators. (see Appendix D).

4.6.2 At the end of the financial year, Audit and Consultancy Services had met the following targets:

KP02 100% of final audit reports were issued within five working days of the draft report being agreed

KP03 at least 90% of the total planned annual chargeable hours were realised

KP07 100% of auditees who returned a post audit questionnaire stated that the service they had received was good or excellent

Of the remaining four indicators, three showed an improved performance on the previous year with only one, KP06 - percentage of scheduled follow up audits undertaken, showing a decline on the previous year's performance. All follow-up audits carried forward to 2011-12, will be concluded in the first quarter of that financial year.

4.7 Quality Assurance

4.7.1 In addition to the performance indicators, feedback on the performance of Internal Audit during 2010-11 was obtained through an Annual Audit Survey which was provided to all Strategic Directors, Heads of Service and Corporate Managers for completion and the issuing of a satisfaction questionnaire at the end of each audit.

4.7.2 Satisfaction or otherwise as expressed in the five Annual Audit Survey forms returned is shown in the table below:

Year	Excellent / Very satisfied / Much Better	Good / Satisfied	Fair	Poor	Very Poor	N/A	Total
2010-11	50.37%	42.22%	0.75%	0.0%	0.0%	6.67%	
2009-10	56.79%	38.89%	3.7%	0.0%	0.0%	0.62%	100%
2008-09	53.04%	42.17%	4.29%	0.5%	Data not collected under this heading for this year		100%

4.7.3 Questionnaires returned following the completion of an audit showed that overall all recipients of audit reports were either very satisfied or satisfied with the service received from Internal Audit.

4.8 Compliance with the CIPFA Code of Practice

- 4.8.1 The Head of Finance, Performance and Asset Management's 2010-11 review of the effectiveness of Internal Audit included an assessment of Internal Audit's compliance with the Code. Following his review, the Head of Finance, Performance and Asset Management reported that during the financial year 2010-11, Internal Audit was substantially compliant with the Code.

5. LEGAL IMPLICATIONS

- 5.1.1 The requirement for an internal audit function arises from the Local Government Act 1972 (s151), the Local Government Act 2003 (s21) and the Accounts and Audit Regulations 2003.
- 5.1.2 The Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, (10.4.1) states that the Head of Internal Audit must provide a written report to those charged with governance timed to support the Statement on Internal Control (now Annual Governance Statement).

6. FINANCIAL AND RISK IMPLICATIONS

- 6.1 Failure of Internal Audit to complete / have in progress those audits identified as key or high risk in the annual audit plan (amended to take into account the changing control and risk environments within which Internal Audit operates) exposes North Hertfordshire District Council to the risk that its External Auditors will raise concerns about the ability of Internal Audit to prioritise and address the risks facing the Council.

7. HUMAN RESOURCE AND EQUALITIES IMPLICATIONS

- 7.1 There are no human resource or equalities implications arising from this report.

8. RECOMMENDATIONS

- 8.1 It is recommended that members of the Finance, Audit and Risk Committee:
- 8.1.1 Note the opinion of Audit and Consultancy Services that an adequate overall internal control environment exists at North Hertfordshire District Council based on the work undertaken by Audit and Consultancy Services during 2010-11;
- 8.1.2 Note the work undertaken by Internal Audit between February and May 2011 as it relates to the Annual Audit Plan 2010-11;
- 8.1.3 Note the issues judged relevant for inclusion in the Annual Governance Statement;
- 8.1.4 Note Audit and Consultancy Services' year end performance against the 2010-11 Internal Audit Performance Indicators and the feedback from the quality assurance exercises; and
- 8.1.5 Note compliance of Audit and Consultancy Services with the Code of Practice.

9. REASONS FOR RECOMMENDATIONS

- 9.1 Recommendations 8.1.1 to 8.1.5 have been made to ensure that North Hertfordshire District Council complies with the requirements of the Code of Practice for Internal Audit in Local Government 2006.

10. APPENDICES

- 10.1 Appendix A Audit and Consultancy assignments completed during the financial year 2010-11 and work in progress as at 31st March 2011
Appendix B Year end position against the annual audit plan 2010-11
Appendix C Summaries of work carried out between February and May 2011
Appendix D Performance Indicators for Audit and Consultancy Services for the period 1 April 2010 to 31 March 2011

11. CONTACT OFFICERS

Margaret Mulkerrin – Audit Manager, Tel: 01462 474242
email: margaret.mulkerrin@north-herts.gov.uk

12. CONTRIBUTORS

David De Smet - Principal Auditor, Tel: 01462 474467
email: david.desmet@north-herts.gov.uk

Alan Cooper –Principal Auditor, Tel 01462 474344
Email: alan.cooper@north-herts.gov.uk

Andy Cavanagh - Head of Finance, Performance and Asset Management, Tel: 01462 474243,
email: andrew.cavanagh@north-herts.gov.uk

Katie White, Corporate Legal Manager, Tel: 01462 474315,
email: Katie.white@north-herts.gov.uk

Kerry Shorrocks – Corporate HR Manager, Tel: 01462 474224,
email: kerry.shorrocks@north-herts.gov.uk

13. BACKGROUND PAPERS

Code of Practice for Internal Audit in Local Government 2006

**AUDIT AND CONSULTANCY ASSIGNMENTS 2010-11 RESULTING IN THE ISSUE OF
AN ASSURANCE LEVEL**

Audit Title	Assurance Level
Main Accounting System (2010-11)	Substantial to full
Main Accounting System (2009-10)	Substantial to full
Council Tax (2010-11)	Substantial to full
Council Tax (2009-10)	Substantial to full
Treasury Management (2010-11)	Substantial to full
Treasury Management (2009-10)	Substantial to full
Housing and Council Tax Benefits (2010-11)	Substantial to full
Homelessness	Substantial to full
Health and Safety	Substantial to full
Burial Registrations	Substantial to full
Creditors (2010-11)	Substantial to full
Payroll (2010-11)	Substantial
Payroll (2009-10)	Substantial
NNDR (2009-10)	Substantial
Asset Management and Capital Accounting (2009-10)	Substantial
Sundry Debtors (2010-11)	Substantial
IT Systems Access (Council wide)	Substantial
Procurement and Management of IT Equipment	Substantial
Investigations	Substantial
Bookings	Substantial
Income Collection Methods	Substantial
S106 Agreements and Unilateral Undertakings	Moderate
Inward Investment	Moderate
Project Management and Programme Governance	Moderate
Members Allowances	Moderate
Parking Services – Cash Collection Contract	Moderate
Home-working	Moderate
Officers' Conflicts of Interest	Moderate

WORK IN PROGRESS AS AT 31 MARCH 2011

Audit Title	Status as at 31 March 2011	Status as at 13 May 2011
Consultants	Audit 95% complete	Final report issued May 2011 Moderate Assurance
Gifts and Hospitality	50% complete	Draft report issued in May 2011 Substantial Assurance
NNDR	Audit 80% complete	Draft report issued in May 2011 Substantial Assurance
Asset Management and Capital Accounting	Audit 65% complete	Audit 80% complete
Members' Interests	Not commenced	50% complete
Leisure Management Contract	Not commenced	Audit carried forward to 2011-12
Recycling	Not commenced	Audit carried forward to 2011-12

APPENDIX B

YEAR END POSITION AGAINST THE ANNUAL AUDIT PLAN 2010-11

Audit Title	Status as at 31 March 2011
Council Tax	Complete
Treasury Management	Complete
Conflicts of Interest	Complete
Payroll	Complete
NNDR	Complete
Members Allowances	Complete
Programme Governance	Complete
Main Accounting System	Complete
Asset Management and Capital Accounting	Complete
2009-10 CARRY FORWARD	
Main Accounting System	Complete
Council Tax	Complete
Council Tax Benefits & Rent Allowances	Complete
NNDR	80% complete
Creditors	Complete
Payroll	Complete
Debtors	Complete
Treasury Management	Complete
Asset Management and Capital Accounting	65% complete
MANAGED AUDIT 2010-11	
Housing Association Support	Complete
Environmental Enforcement & Animal Welfare	Complete
Parks and Countryside	Complete
Property Services	Complete
Debt Recovery	Complete
Information Assurance	Complete
Conflicts of Interest	Internal audit input into Policy revision
Business Continuity	Complete
Planning Control	Not commenced
Home working	Complete
Parking Services Cash Collection Contract	Complete
Income Collection methods	50% complete
Homelessness	Complete
Burials	Complete
Investigations	Complete
IT System Access	Complete
RIPA	Complete
Acolaid	Complete
FOLLOW UP	
S106 Agreements and Unilateral Undertakings	Complete
Consultants	95% complete
Parking Services	Complete
Income Collection Methods	Complete
Health & Safety	Complete

Recruitment and retention (including CRB checks)	Elements completed in Payroll audit
Bookings	Complete
Homelessness	Complete
Burial Registrations	Complete
Investigations	Complete
Leasing	Deleted from 2010-11 plan
Partnerships	Audit of Herts Waste Partnership lead by Broxbourne Borough Council
Inward Investment	Complete
Homeworking / flexibility works	Complete
Gifts and hospitality	50% complete
Members' Interests	Not commenced
VAT	Elements completed in Creditors and Debtors audits. Additional hoc work also undertaken.
Environmental Stewardship (Sustainability)	Carried forward to agreed 2011-12 annual plan
East Herts DC joint working	Complete
PLANNED ASSURANCE	
IT Strategy	Carried forward to agreed 2011-12 annual plan
Procurement and management of IT equipment	Complete
Post Implementation Review - Covalent	Deleted from 2010-11 plan
Systems access management (council-wide)	Complete
Software licensing	Carried forward to agreed 2011-12 annual plan
IT AUDIT	
Finance, Policy and Governance - tender opening	Provided as requested
Customer Services - tender opening	Provided as requested
Careline tender evaluation	Complete
Leisure Management Contract	Carried forward to agreed 2011-12 annual plan
Grounds Maintenance	Ad hoc advice provided as requested
Recycling	Carried forward to agreed 2011-12 annual plan
Agency Staff	Complete
Howard Gardens	Ad hoc advice provided as requested
PACIF	Ad hoc advice provided as requested
Miscellaneous Contracts	Ad hoc advice provided as requested
Strategic Procurement	Ad hoc advice provided as requested
CONTRACTS & PROCUREMENT	
Audit and Risk Committee	Input provided as required
SIAS (previously Pathfinder and audit groups)	Input provided as required
Liaison with external audit	Complete
PLANNED NON ASSURANCE	
Procurement and Contracts Group	Attended

IT Transformation Board	Attended
Enforcement Forum	Attended
Risk Management Group	Attended
Corporate Governance Group	Attended
Information Assurance Group	Attended
Fraud Response Plan (policy review)	Complete
Anti-fraud and Corruption information leaflets	Complete
Money Laundering Policy (policy review)	Complete
Financial Regulations and Contract Procurement Rules (documentation review)	Complete
Annual Governance Statement	Complete
Annual Governance Statement (process review)	Complete
Confidential Reporting Code (policy review)	Complete
Pro-active fraud - incorporated in Payroll audit	Complete
Develop departmental applications controls	Deleted from plan
Audit Code of Practice (Compliance)	Undertaken by Head of FPAM
Conflicts of Interest (policy review)	Complete
GOVERNANCE	
Chief Executive - advice	Provided
Finance, Policy & Governance - advice	Provided
Planning, Housing & Enterprise - advice	Provided
Customer Services - advice	Provided
Electoral Services	Support provided
LGC Town Council support	Provided
Service Planning	Complete
Health and Safety Inspection	Complete
Protecting the Public Purse - survey	Complete
Risk Management Survey	Complete
Building Control - new fee structure review	Input provided as requested
Audit and Risk Committee training	Provided
VFM Review Waste	Complete
VFM review- audit	Complete
Input into Capital Strategy	Complete
Grant Change Proposals	Complete
IT Enhancements - ad hoc	Complete
Review of Parish Councils	Complete
Grant Claims validation	Complete
Internet Usage Investigation	Complete
Whistleblowing Case	Complete
Monitoring Officer investigation	Complete
Lease Cars	In progress at year end
Special Investigation	Complete
Fraud contingency	Complete
CONTINGENCY	
TOTAL CHARGEABLE DAYS	600
TOTAL NON-CHARGEABLE DAYS	175
TOTAL DAYS OUT OF OFFICE	227

**SUMMARIES OF AUDIT WORK CARRIED OUT BETWEEN FEBRUARY AND MAY 2011
RELATING TO THE ANNUAL AUDIT PLAN 2010-11**

TITLE OF AUDIT:	Sundry Debtors
SERVICE:	Financial Services
REPORT ISSUED TO:	Strategic Director of Finance, Policy and Governance Head of Finance, Performance & Asset Management Accountancy Manager Payments & Reconciliations Manager Risk Manager External Auditors
ASSURANCE LEVEL:	Substantial (2009-10 audit = Substantial)
	<p>The Debtors function is part of the Payments and Reconciliation Section within Financial Services. It provides an invoice processing service on behalf of Council departments. In the period 1 April 2010 to 31 December 2010, the Council raised 9,127 invoices with a total value of £6,363,429 and 351 credit notes with a total value of £715,816.</p> <p>The results of the audit show that controls over the raising of sundry debtor invoices and credit notes are adequate and effective and that robust processes exist to ensure that the financial management system accurately records all transactions.</p>

HIGH RISK RECOMMENDATIONS	2
MEDIUM RISK RECOMMENDATIONS	2
LOW RISK RECOMMENDATIONS	0

<p>CONTROL WEAKNESSES (Relating to High Risk Recommendations only):</p> <ul style="list-style-type: none"> • Invoices not raised within five days as required by Financial Regulations. • Credit note requisitions completed incorrectly, making it possible for lines to be added after authorisation. <p>AGREED ACTIONS (Relating to above Control Weaknesses):</p> <ul style="list-style-type: none"> • Departments will be reminded of the requirements of Financial Regulations with regard to the prompt raising of invoices and of the correct procedures to follow when completing credit note authorisations.

TITLE OF AUDIT: Consultants

SERVICE: Corporate

REPORT ISSUED TO: Strategic Director Finance, Policy & Governance
Contracts & Procurement Group Members
Risk Manager
External Auditors

ASSURANCE LEVEL: Moderate

North Hertfordshire District Council spends significant amounts on consultancy fees. Analysis of the General Ledger shows that the total amounts relating to consultancy expenditure are:

07/08	08/09	09/10	10/11 Apr -Oct
£1,809,731	£1,721,406	£1,982,892	£645,803

This audit has demonstrated that there are inadequate Corporate systems for the approval and monitoring of consultancy appointments. There is limited assurance that value for money is being achieved and often insufficient consideration of alternative options.

RECOMMENDATIONS	High	6
	Medium	6
	Low	2

CONTROL WEAKNESSES:

- No Corporate monitoring of total expenditure on consultants
- No Corporate approval process for consultancy appointments
- Tender opened in breach of Contract Procurement Rules
- Consultant appointed in breach of Contract Procurement Rules
- Professional Indemnity Insurance not held by a consultant
- Inadequate documentation to demonstrate accountability, transparency and compliance with all relevant rules and regulations.

AGREED ACTIONS:

- Reports on consultants expenditure will be made to the Corporate Contracts & Procurement Group
- A pro forma for the approval of commissions over agreed values will be introduced
- Staff will be reminded of the correct tendering procedures. The pending introduction of e-tendering should mitigate tendering issues identified
- Commissioning officers will be reminded of the need to comply with Contract Procurement Rules in all instances. Training will be provided for staff
- The requirement to maintain adequate insurances will be reinforced and incorporated within contract documents
- Project management controls will be applied to all significant appointments. Adequate audit trails will be maintained and reporting lines and responsibilities outlined from the outset.

TITLE OF AUDIT:	Main Accounting System
SERVICE:	Financial Services
REPORT ISSUED TO:	Strategic Director of Finance, Policy and Governance Head of Finance, Performance & Asset Management Accountancy Manager Risk Manager External Auditors – Grant Thornton
ASSURANCE LEVEL:	Substantial to Full (2009-10 audit = Substantial to Full) The approved annual budget is uploaded into the Main Accounting system in March each year and managed throughout the year by budget-holders in conjunction with their Group Accountant. The 2010-11 Main Accounting audit, with the agreement of Grant Thornton, has been completed on the basis of a system walk-through, with limited sample testing undertaken. The audit has confirmed that a sound system of controls over the Main Accounting system are in operation, leading to accurate, reliable and timely information on the Council's financial performance. Only one recommendation has been made, resulting in a Substantial to Full assurance level being given for the sixth consecutive year.

RECOMMENDATIONS	High	0
	Medium	0
	Low	1

CONTROL WEAKNESSES (Relating to High Risk Recommendations only):

- N/A

AGREED ACTIONS (Relating to above Control Weaknesses):

- N/A

TITLE OF AUDIT:	Council Tax
SERVICE:	Revenues & Benefits
REPORT ISSUED TO:	Strategic Director FP&G Head of Revenues & Benefits Revenues & Benefits Service Manager Revenues Manager Risk Manager External Auditors
ASSURANCE LEVEL:	Substantial to Full (2009-10 audit = Substantial to Full) Council Tax is charged on domestic properties in order to make a contribution towards the cost of local services. For the 2010-11 financial year the collectable debit for Council Tax is £66.2m, with a collection target of 99%. As at 31 December 2010, £57.3m of the debit had been collected. The 2010-11 Council Tax audit, with the agreement of Grant Thornton, was completed on the basis of a system walk-through, with only limited testing undertaken. The audit has confirmed that controls over Council Tax are robust and operating effectively. As a result, only one recommendations has been made.

RECOMMENDATIONS	High	0
	Medium	1
	Low	0

CONTROL WEAKNESSES: (relating to high risk recommendations only)	N/A
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AGREED ACTIONS: (relating to high risk recommendations only)	N/A
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TITLE OF AUDIT: Creditors

SERVICE: Finance, Performance & Asset Management

REPORT ISSUED TO: Strategic Director of Finance, Policy and Governance
Head of Finance, Performance & Asset Management
Accountancy Manager
Payments & Reconciliation Manager
Risk Manager
External Auditors – Grant Thornton

ASSURANCE LEVEL: **Substantial to Full**
(2009-10 audit = Substantial to Full)

The Creditors function is a part of the Payments and Reconciliation section within Financial Services and is responsible for paying correctly authorised invoices on behalf of Council services. In the period 1 April to 31 October 2010, 3,106 invoices were processed with a total value of £15,007,716.

The audit has confirmed that controls over the creditors function are generally robust and operating effectively. Recommendations have been made to ensure full compliance with Financial Regulations and to strengthen existing controls.

RECOMMENDATIONS	High	2
	Medium	3
	Low	0

CONTROL WEAKNESSES:

- The Reconciliation Technician responsible for checking purchase card transactions and authorisations, is also a purchase card holder
- Orders are not always raised in advance when required, in contravention of Financial Regulations.

AGREED ACTIONS:

- The card held by the Reconciliations Technician will be withdrawn
- Officers will be reminded of the correct procedures and escalation procedures will be instituted for persistent breaches of Financial Regulations.

TITLE OF AUDIT: NNDR

SERVICE: Revenues & Benefits

REPORT ISSUED TO: Strategic Director Finance, Policy and Governance
Head of Revenues & Benefits
Revenues & Benefits Service Manager
Revenues Manager
Systems & Technical Manager
Risk Manager
External Auditors

ASSURANCE LEVEL: **Substantial**
(2009-10 audit = Substantial)

National Non-Domestic Rates (NNDR), also known as Business Rates are the means by which businesses and others who occupy non-domestic properties make a contribution towards the cost of local services. NNDR was introduced in 1990 as a replacement for General Rates.

Each property in the country is assessed by the Valuation Office Agency (a branch of HM Revenue & Customs) every five years and given a rateable value which is used to calculate how much each business is to pay each year. The latest revaluation was effective from 1 April 2010. Rates are pooled by central government and redistributed to local councils according to the number of people living in the area.

For the 2010-11 financial year the collectable debit for NNDR is £34.3m, with a collection target of 97%. As at 31 December 2010 £30.2m of the debit had been collected. The Council had 4,085 business rated properties as at 1 April 2010.

The audit has confirmed that NNDR controls are robust and are operating effectively. As a result, only three recommendations have been made, none of which have been assessed as High Risk.

RECOMMENDATIONS	High	1
	Medium	1
	Low	1

CONTROL WEAKNESSES:

A refund was authorised for £8,748.21 by an officer who can only authorise refunds up to £5,000.

AGREED ACTIONS:

Hertfordshire Waste Partnership (HWP) – Audit Summary

- 1.1 As detailed in the draft report the table below shows the main areas examined during the inspection along with an assessment as to whether or not the HWP has met each objective :-

Control Objective	Fully met	Largely met	Partly met	Not met
1 There is a sound rationale for the partnership which is set out in a signed agreement between the parties.	√			
2 The partnership adds value and demonstrates this.		√		
3 The partnership has robust governance arrangements including a formal framework for reporting recommendations.		√		
4 Partnership performance is monitored against formally agreed targets and regularly reported. Benchmarking of individual partner performance against targets takes place.		√		
5 Partnership funds are well controlled and regularly reported.		√		
6 Procurement activities are controlled, monitored and reported.		√		
7 Partnership risks are identified, assessed, mitigated and reviewed.				√

- 1.2 The overall audit opinion is that **substantial assurance** can be given concerning the effectiveness of controls in meeting partnership objectives as stated in the table. The opinion is based on the evaluation of controls and testing of their effectiveness.
- 1.3 However, the report also highlights that improvements could be made in the reporting of HWP activity and performance to partner authorities. The report suggests that a more focused and comprehensive reporting process would improve partnership resonance, raise the profile of HWP work and generate more effective local scrutiny. The report goes on to suggest that the HWP should consider what performance information should be disseminated via an annual report to local committees and assign officer responsibility to ensure that such information is presented for local scrutiny.
- 1.4 The inspection also noted that whilst working practices and procedures were generally appropriate for the partnership in its current stage of development, these need to be kept under constant review to ensure that they evolve in line with changes to the partnership.
- 1.5 Whilst the audit also highlights areas of risk and makes recommendations to mitigate these, it also notes that the HWP is currently developing a risk management system.

(Extract from Report issued by Broxbourne Borough Council)

Follow-up Audits

Where possible Audit and Consultancy Services follow up the implementation of recommendations around six months after the issue of a final audit report. The following follow up audits were conducted as part of the 2010-11 Audit Plan:

Homelessness

The results of discussions with the Strategic Housing Manager and limited audit testing indicated that three of the five recommendations made had been implemented in their entirety. The two remaining recommendations had been partially implemented and were on track to be implemented by the agreed revised implementation date.

Investigations

The results of discussions with the Investigations Manager and limited audit testing indicated that all six of the original recommendations made have been fully implemented.

Burials

The results of discussions with the Service Manager – Grounds Maintenance, have indicated that all of the original four recommendations have been fully implemented.

IT Systems Access

The follow-up of this audit was carried out in mid-March 2011. At that date, of the original 11 recommendations, six had been fully implemented with no further actions required, three not implemented and one partially implemented. The final recommendation was not due for completion until April 2011 and was on-track for delivery in accordance with the original timescale.

One of the original high risk recommendations relating to the introduction of an effective leavers process between HR and IT to enable leavers to be deleted from the network had not yet been implemented. This was expected to be concluded by the end of April 2011 (originally October 2010).

Outstanding actions for medium risk recommendations related to the enhancement of network login requirements (now expected by the end of 2011) and monitoring of generic Admin User accounts (now expected by April 2011).

Scheduled Consultancy Work

Introduction:

Scheduled Consultancy work was conducted in the following areas between February and March 2010 as part of the 2010-11 Audit Plan:

Procurement and Contracts Group

A Principal Auditor has been a key member of this group and provided advice or guidance on the development of the procurement function at the Authority. However, with the transfer of Audit staff to the SIAS, audit attendance at the Group will cease as from 1 June 2011. In order to mitigate the impact of this, meetings have been held with the Procurement Officer to ensure continued coverage of important issues. The audit role in tender openings will be dealt with by the Payments and Reconciliations Manager and the Procurement Officer.

Ad Hoc Reviews and Advice

Introduction:

Unscheduled consultancy work was conducted in the following areas between February and March 2011:

Leased Cars

Work was undertaken on behalf of the Head of Finance, Performance & Asset Management to review the Council's response to the change made by HMRC in c2002 over the treatment of VAT on leased cars.

Cheque Control

Advice was given to the Payments and Reconciliation Manager regarding the revision of systems for the storage and accounting for creditor cheques.

Grounds Maintenance Contract

A meeting was held with the Service Manager- Grounds Maintenance to examine the process for the retendering of the Grounds Maintenance Contract, in particular the Pre Qualification Questionnaire and Invitation to Tender processes.

PERFORMANCE INDICATORS FOR AUDIT & CONSULTANCY SERVICES FOR THE PERIOD 1 APRIL 2010 TO 31 MARCH 2011

	Description	Target	31 March 09	31 March 10	31 March 11	Direction of travel
		100%	76%	90.9%	96.4%	△
		TLS	Red	Red	Red	
		100%	95.7%	100%	100%	◀▶
		TLS	Red	Green	Green	
		90% cumulative	85.6%	88.2%	108%	△
		TLS	Red	Red	Green	
		80%	68.0%	67%	76%	△
		TLS	Red	Red	Red	
		90% cumulative	73.3%	77.24%	81.3%	△
		TLS	Red	Red	Red	
		100% cumulative	72.7%	100%	91.7%	▼
		TLS	Red	Green	Red	
		85%	100%	100%	100%	◀▶
		TLS	Green	Green	Green	

Traffic Light Status (TLS)

Green	On target or exceeding target (on course to achieve the year-end target).
Amber	Not achieving target, but only to level that does not jeopardise achievement of the year-end target.
Red	Performance not achieving target and to level that jeopardises achievement of the year-end target.

Direction of Travel:

△	Return improved / remained at optimum performance, compared to the same time last year.
▼	Return worsened / remained at the worst possible performance level, compared to the same time last year.
◀▶	Return remained the same, compared to the same time last year.