

**TITLE OF REPORT: SHARED INTERNAL AUDIT SERVICES – AUDIT UPDATE  
(INCLUDING POSITION AGAINST THE 2011-2012 AUDIT PLAN)**

JOINT REPORT OF THE HEAD OF FINANCE, PERFORMANCE & ASSET MANAGEMENT,  
(NORTH HERTFORDSHIRE DISTRICT COUNCIL) AND THE HEAD OF THE SHARED  
INTERNAL AUDIT SERVICE (HERTFORDSHIRE COUNTY COUNCIL)

**1. SUMMARY**

- 1.1 The purpose of this report is for members of the Finance, Audit and Risk Committee to receive and consider:
- Progress against delivery of the 2011-12 Annual Audit Plan;
  - Summaries of internal audit work undertaken during the period 1 June 2011 to 22 August 2011; and
  - Proposed amendments to the remainder of the 2011-12 Annual Audit Plan.

**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 The Audit & Risk Committee received and approved the 2011-12 Annual Audit Plan on 28th February 2011.
- 3.2 The work of Internal Audit is reported to the Committee so that there is an opportunity for Members to review and monitor an essential component of corporate governance and gain assurance that its internal audit function is fulfilling its statutory obligations.
- 3.3 SIAS is contracted to provide internal audit services in accordance with agreed audit plans. Each authority has contracted to purchase a set number of audit days, with additional services available subject to additional cost.
- 3.5 This update report has been produced in the usual format. A standard SIAS committee report for use across all Authorities is currently under development and will be introduced in due course.

## 4. CONSIDERATIONS

### Annual Audit Plan 2011-12

- 4.1 Attached as Appendix A are summaries of the audits completed by Internal Audit between 1 June 2011 and 22 August 2011. The table below shows the assurance level assigned to each of these audits:

<b>Audit Assignment</b>	<b>Level of Assurance</b>
Gifts & Hospitality (2010-11)	Substantial
Asset Management & Capital Accounting (2010-11)	Substantial
Home Improvement Grants	Substantial
Land Charges	Substantial

- 4.2 The assurance level for each audit will inform the audit opinion on the overall adequacy and effectiveness of the Council's internal control environment, which will be reported on in the Authority's 2011-12 Annual Governance Statement. Where appropriate, information contained in internal audit reports will be used by Heads of Service and Corporate Managers when compiling their Service Assurance Statements as part of the 2011-12 Annual Governance Statement process.
- 4.3 Appendix A also includes details of follow-up audits and other non-audit work undertaken in the period.
- 4.4 It was resolved at the June meeting of this Committee, that the Head of Finance, Performance and Asset Management would present a report on the "Use of Consultants" to this meeting. This report is available under separate cover. A follow up of actions from the Consultants audit will be undertaken and reported on in accordance with agreed follow up protocols.
- 4.5 Appendix B shows the status of audits in the 2011-12 Annual Audit Plan as at 22 August 2011.
- 4.6 The original 2011-12 Annual Audit Plan was prepared a number of months before the implementation of SIAS based on information available at the time (January 2011). Since go-live of SIAS, a number of adjustments have been made to the audit plan to reflect the need to align the number of chargeable audit days to the programme of work and to reflect the time absorbed by the development of, and transition into SIAS during the period April-June 2011. The adjustments made have been undertaken following a risk based review and are set out below:

<b>Audit title</b>	<b>Reason for proposed amendment</b>	<b>Time Impact</b>
Asset Management & Capital Accounting	Reduce time allocation by reducing test programme.	-2 days
Council Tax	As above	-3 days
Main Accounting System	As above	-3 days
North Herts Museum Services	Defer - insufficient progress in contract letting.	-10 days

(procurement review)		
Parking Machine Replacement Contract	Defer – contract not yet awarded.	-8 days
IT Strategy	Defer - strategy still in draft.	-6 days
Application Controls – Anite	Defer - not high priority, consider for inclusion in 2012-13 Audit Plan.	-6 days
E-payments	Defer – insufficient progress in implementing across the Council, consider for inclusion in 2012-13 Audit Plan.	-8 days
Benefits Realisation – Office Accommodation Project	Reduce time allocation by reducing test programme.	-4 days
Corporate Business Planning	Reduce time allocation by reducing test programme.	-3 days
Environmental Stewardship (Sustainability)	Defer – not high priority, consider for inclusion in 2012-13 Audit Plan.	-10 days
Equalities & Diversity	Reduce time allocation by reducing test programme.	-4 days
Licensing & Gambling Acts	Defer - not high priority, consider for inclusion in 2012-13 Audit Plan.	-15 days
Management Information	Reduce time allocation by reducing test programme.	-3 days
Planning Enforcement	Defer - not high priority, consider for inclusion in 2012-13 Audit Plan.	-10 days
Service Delivery Post CSR	Defer - resource review due Spring 2012, consider for inclusion in 2012-13 Audit Plan.	-12 days
Shared Services	Defer – outline strategic business case now due Nov 11 and detailed business case due Apr 12. Consider for inclusion in 2012-13 Audit Plan.	-10 days

4.7 As a result of this risk based review of priorities and areas of significance, the audit requirement for the period 1 June 2011 to 31 March 2012 is 405 days. This includes a time allocation for the strategic management of the provision of internal audit services to the Council.

## **Performance Indicators**

- 4.8 Following transfer of internal audit services into SIAS, the data required to report existing performance indicators is no longer being collected and the usual performance data is, therefore, not included in this report. A new set of standard performance indicators is planned and will be reported upon in the next update to the Committee.
- 4.9 As at 22 August, 29% of the revised Annual Audit Plan days for the Council had been delivered. Appendix B gives an overview of progress on the NHDC audit plan.

## **5. LEGAL IMPLICATIONS**

- 5.1 The Local Government & Housing Act 1989 requires the Council to follow best practice with regard to revenue accounts and accounting for capital expenditure. Regulations made under the Audit Commission Act 1998 include requirements to maintain an adequate and effective system of internal audit of records and control systems and to prepare statements of account in accordance with proper practice. The Local Government Act 2003 contains further requirements for proper practice in regard to capital finance. The Audit Plan is the Authority's approach to ensuring that these systems and practices are in place and operating effectively.
- 5.2 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 2006.

## **6. FINANCIAL AND RISK IMPLICATIONS**

- 6.1 Failure to report internal audit progress information to a Member body would deny North Hertfordshire District Council the opportunity to review and monitor an essential component of corporate governance and gain independent assurance that SIAS is fulfilling its statutory obligations.
- 6.2 Failure of SIAS to complete / have in progress a level of planned work that provides an adequate level of assurance over the internal control environment, exposes North Hertfordshire District Council to the risk that its External Auditors will raise concerns about the ability of SIAS 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**

It is recommended that members of the Finance, Audit and Risk Committee:

- 8.1 Note progress against the agreed Annual Audit Plan for 2011-12 as at 22 August 2011;
- 8.2 Agree proposed changes to the approved 2011-12 Annual Audit Plan.

## **9. REASONS FOR RECOMMENDATIONS**

- 9.1 Recommendations 8.1 and 8.2 above have been made to ensure that the Finance, Audit and Risk Committee fulfils its obligations as the Audit Committee for North Hertfordshire District Council as an essential component of corporate governance and gains independent assurance that the Internal Audit service is effective.

## **10. APPENDICES**

- 10.1 Appendix A Details of audit work completed in the period 1 June 2011 to 22 August 2011
- 10.2 Appendix B Status of all projects on the 2011-12 Annual Audit Plan as at 22 August 2011

## **11. CONTACT OFFICERS**

Alan Cooper – Senior Auditor, SIAS  
Tel: 01438 845509, email: [alan.cooper@hertscc.gov.uk](mailto:alan.cooper@hertscc.gov.uk)

Margaret Mulkerrin – Audit Manager, SIAS  
Tel 01438 845504, email: [margaret.mulkerrin@hertscc.gov.uk](mailto:margaret.mulkerrin@hertscc.gov.uk)

## **12. CONTRIBUTORS**

Andy Cavanagh - Head of Finance, Performance and Asset Management,  
Tel: 01462 474243, email: [andy.cavanagh@north-herts.gov.uk](mailto:andy.cavanagh@north-herts.gov.uk)

Helen Maneuf – Head of Assurance Services, Hertfordshire County Council  
Tel: 01438 845502, email: [helen.maneuf@hertscc.gov.uk](mailto:helen.maneuf@hertscc.gov.uk)

## APPENDIX A

### 1. MANAGEMENT / EXECUTIVE SUMMARIES FOR AUDIT WORK COMPLETED IN THE PERIOD 1 JUNE 2011 TO 22 AUGUST 2011

<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>  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

<b>CONTROL WEAKNESSES (Relating to High Risk Recommendations only):</b> <ul style="list-style-type: none"><li>• Not all gifts are being passed to the Chairman's charity in accordance with policy</li><li>• The declaration form for gifts and hospitality received by Members does not specify what was done with the item</li></ul>
--

<b>AGREED ACTIONS (Relating to above Control Weaknesses):</b> <ul style="list-style-type: none"><li>• Reminder to be issued to confirm correct procedure</li><li>• Declaration form to be revised as permitted by the legislative framework</li></ul>
---

<b>TITLE OF AUDIT:</b>	<b>Asset Management &amp; Capital Accounting</b>
<b>SERVICE:</b>	Finance, Performance and Asset Management
<b>REPORT ISSUED TO:</b>	Strategic Director of Finance, Policy and Governance Head of Finance, Performance & Asset Management Property Services Manager Senior Estates Surveyor Risk Manager External Auditors – Grant Thornton
<b>ASSURANCE LEVEL:</b>	<b>Substantial</b> (2009-10 audit = Substantial)
	The Council has a mixed property portfolio including operational properties (markets, community centres, halls) and investment properties (retail and offices). The Asset Register shows a valuation of £82m for the property portfolio as at 31 March 2010.
	The estimated capital programme for 2011-12 as approved by Cabinet on 15 February 2011 is £8.34m.
	The findings of the audit confirm that processes and controls over Asset Management are generally adequate and effective, with nine recommendations made (two high risk).

<b>HIGH RISK RECOMMENDATIONS</b>	<b>2</b>
<b>MEDIUM RISK RECOMMENDATIONS</b>	<b>7</b>
<b>LOW RISK RECOMMENDATIONS</b>	<b>0</b>

<b>CONTROL WEAKNESSES (Relating to High Risk Recommendations only):</b>
<ul style="list-style-type: none"> <li>Detailed reports as required by the Council's Contract Procurement Rules are not being prepared prior to all disposals</li> <li>The Council's Asset Management Plan &amp; Capital Strategy has not been updated since 2009.</li> </ul>

<b>AGREED ACTIONS (Relating to above Control Weaknesses):</b>
<ul style="list-style-type: none"> <li>Detailed reports will be produced prior to any future disposals</li> <li>When the longer-term financial situation of the Council is clearer, a Strategy will be produced. The situation will be formally reviewed by March 2012.</li> </ul>

<b>TITLE OF AUDIT:</b>	<b>Home Improvement Grants</b>
<b>SERVICE:</b>	Housing Strategy & Renewals
<b>REPORT ISSUED TO:</b>	Strategic Director of Planning, Housing & Enterprise Head of Housing & Public Protection Strategic Housing Manager Housing Strategy & Renewals Manager Risk Manager External Auditors – Grant Thornton
<b>ASSURANCE LEVEL:</b>	<b>Substantial</b>  Processes and procedures for vetting and processing grant applications are robust, with full assessments made. There is, however, an opportunity to review and streamline processes and supporting documentation to make the process more efficient.  Grants paid on owner-occupied properties are not consistently logged on the Land Charges Register and this could lead to non-recovery of part of the grant in the event of the sale of the property. Although registering a charge is the responsibility of the Land Charges team, the Housing Strategy and Renewals team should seek and obtain assurance that this key task has been successfully completed.

<b>HIGH RISK RECOMMENDATIONS</b>	3
<b>MEDIUM RISK RECOMMENDATIONS</b>	5
<b>LOW RISK RECOMMENDATIONS</b>	0

- CONTROL WEAKNESSES (Relating to High Risk Recommendations only):**
- Pending and completed grant application files are not being stored securely, despite the presence of sensitive personal information on file (2 recommendations);
  - Completed grants may not be recovered in the event of the sale of the property as a charge is not always placed over the property on the Local Land Charges Register and confirmation that a charge has been successfully placed is not always communicated to the Strategic Housing team.

- AGREED ACTIONS (Relating to above Control Weaknesses):**
- Revised storage arrangements to be implemented;
  - Process for communicating the registration of a new charge over a property to be revised (the process for registering of the charge on the Local Land Charges Register is covered in a separate audit of Land Charges).



**LAND CHARGES**  
(SIAS Report Format)

**1. EXECUTIVE SUMMARY**

**Introduction**

- 1.1 This audit derived from the approved 2011-12 Annual Audit Plan.
- 1.2 Land Charges forms part of the conveyancing process, where a search is conducted against a property. During 2010-11, 1,586 search requests were logged generating income to the Council of £166,812. A further 860 personal searches (income of £21,311) were completed in the year.
- 1.3 Internal Audit testing focused on the period from 1 April 2011 to 30 June 2011.

**Overall Audit Opinion**

- 1.4 Based on the work performed during this audit, we can provide overall **Substantial Assurance** that there are effective controls in operation for those elements of the risk management processes covered by this review and detailed in the Audit Terms of Reference:

Risk Area	None	Limited	Moderate	Substantial	Full
Processing Search Requests				√	
Income Recorded and Received				√	
The Local Land Charges Register			√		
<b>Overall</b>				√	

- 1.5 This review has shown a significant improvement, which is especially noteworthy due to the changes that have occurred since the previous audit.

**Summary of Recommendations**

- 1.6 We have made 2 recommendations, 1 classified as 'High' and 1 as 'Merits Attention', to further strengthen the internal controls and management / audit trail.
- 1.7 Description of recommendation classified as 'High' – Home Improvement Grants paid are not consistently logged on the Land Charges Register and this could lead to non-recovery of part of the grant in the event of the sale of the property.

**Annual Governance Statement**

- 1.8 There are no implications for the Annual Governance Statement arising from this audit.

## 2. Other Work Carried Out

### Follow up Audits

#### **Introduction:**

The implementation of recommendations is followed up around six months after the issue of a final audit report, where possible. Detailed below are the follow up audits completed in the period 1 June 2011 to 22 August 2011:

#### **Procurement & Management of IT Equipment**

The results of discussions with officers and limited audit testing, have indicated that one of the original eight recommendations has been implemented. The seven remaining recommendations (two high priority and five medium priority) have been assessed as not yet implemented, although agreed implementation dates have passed. Revised implementation dates have been proposed.

#### **Members Allowances**

The results of discussions with officers and limited audit testing, have indicated that nine of the original sixteen recommendations have been fully implemented and one recommendation partially implemented. The six remaining recommendations assessed as not yet implemented relate to the revision of the Members' Allowances Scheme which has been delayed from the original target date of 31 December 2010.

#### **Income**

The results of discussions with officers and limited audit testing, have indicated that all four recommendations have been implemented.

#### **Bookings**

The results of discussions with officers and limited audit testing, have indicated that five of the original six recommendations have been fully implemented and the one remaining recommendation partially implemented.

#### **Inward Investment**

The results of discussions with officers and limited audit testing, have indicated that all four original recommendations have been implemented.

#### **Health & Safety**

The results of discussions with officers and limited audit testing, have indicated that the one recommendation made has been implemented.

#### **Planning Applications**

The results of discussions with officers and limited audit testing, have indicated that eight of the original ten recommendations have been fully implemented, one partially implemented and one not yet implemented.

### Scheduled Consultancy Work

#### **Introduction:**

Scheduled Consultancy work was conducted in the following areas as part of the 2011-12 Audit Plan:

**Sun Street / Bucklersbury**

A meeting was held with the Projects Manager in respect of this scheme and advice was given regarding the best way to progress outstanding issues.

**Elections - Postal Votes**

The Audit Manager and a Principal Auditor assisted the Democratic Services Manager in test-checking a sample of postal votes prior to their dispatch from the printers.

<b>Title of the Audit:</b> Ad Hoc Reviews and Advice
--

**Introduction:**

The following unscheduled consultancy work was conducted and advice given:

**Contracts**

Advice and assistance has been provided to officers across the Council on contractual issues on a variety of schemes including: waste management, staff agency and grounds maintenance. This historic role of internal audit at North Herts is being withdrawn and will be covered by the Shared Procurement Officer.

<b>Contingency</b>
--------------------

**Introduction:**

No work was undertaken under the contingency heading of the audit plan.

**APPENDIX B**

**STATUS OF PROJECTS ON THE 2011-12 AUDIT PLAN AS AT 22 AUGUST 2011**

<b>Audit Title</b>	<b>Complete</b>	<b>In progress</b>	<b>Deferred (see section 4.5)</b>	<b>To start</b>	<b>% Complete</b>
Asset Management	√				100
Debtors	√				100
NNDR	√				100
Members Conflicts of Interest		√			95
Gifts & Hospitality	√				100
Consultants	√				100
Parking machine contract	√				100
<b>Total carried forward 2010-11</b>					
Asset Management & Capital Accounting				√	0
Benefits (Council Tax & Housing)				√	0
Council Tax				√	0
Creditors				√	0
Debtors				√	0
Main Accounting System				√	0
NNDR (including Business Improvement Districts)				√	0
Payroll (Officers & Members)				√	0
Treasury Management				√	0
<b>MANAGED AUDIT 2011-12</b>					
Procurement & Management of IT Equipment	√				100
Members Allowances	√				100
Income	√				100
Bookings	√				100
Inward Investment	√				100
Health & Safety	√				100
Planning Control	√				100
Section 106 Agreements				√	0
Consultants				√	0
Gifts & Hospitality				√	0
Members Interests				√	0
Grants to Voluntary and Community Groups and Individuals				√	0
Home Improvement Grants				√	0
Land Charges				√	0
Parking Services				√	0
Risk of Fraud				√	0
Community Safety Partnership				√	0
Copyright Act – Software Licensing				√	0
Leisure Management Contract				√	0
<b>FOLLOW UP AUDIT</b>					
Benefits Realisation – Office Accommodation Project				√	0
Careline				√	0
Community Safety Partnership		√			10

<b>Audit Title</b>	<b>Complete</b>	<b>In progress</b>	<b>Deferred (see section 4.5)</b>	<b>To start</b>	<b>% Complete</b>
Corporate Business Planning				√	0
Corporate Governance Arrangements				√	0
Environmental Stewardship (Sustainability)			√		0
Equalities and Diversity		√			10
Externalisation of Document Management				√	0
Grants to Voluntary and Community Groups and Individuals		√			90
Home Improvement Grants	√				100
Land Charges	√				100
Licensing and Gambling Acts			√		0
Management Information				√	0
Parking Services				√	0
Planning Enforcement			√		0
Risk Management				√	0
Risk of Fraud		√			10
Service Delivery Post CSR			√		0
Shared Services			√		0
<b>OPERATIONAL AUDIT</b>					
Copyright Act – Software Licensing		√			90
Information Sharing		√			10
IT Strategy			√		0
Internet and Email		√			5
Application Controls – Anite			√		0
E-payments			√		0
<b>IT AUDIT</b>					
Bancroft Redevelopment				√	0
Herts Recycling Consortium				√	0
Leisure Management Contract		√			95
Mrs Howard Gardens Redevelopment				√	0
North Herts Museum Service			√		0
Parking Machine Replacement Contract			√		0
Sun Street	√				100
<b>CONTRACTS &amp; PROCUREMENT AUDIT</b>					
Finance, Audit & Risk Committee		√			On-going
Client Liaison		√			On-going
<b>STRATEGIC MANAGEMENT</b>					
Contingency				√	Not yet required
<b>CONTINGENCY</b>					

