



North Hertfordshire District Council

Annual Assurance Statement

and

Internal Audit Annual Report

18 June 2012

Recommendation

<p>Members are recommended to note the Annual Assurance Statement and Internal Audit Annual Report</p>
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Annual Assurance Statement and Internal Audit Annual Report North Hertfordshire District Council

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1. Purpose and Background

Purpose of Report

1.1 The purpose of this report is to:

- document and communicate internal audit's overall opinion on the overall adequacy and effectiveness of the Council's control environment, commenting on significant matters and key themes
- summarise the audit work from which the opinion is derived
- summarise the performance of the internal audit service.

Background

1.2 The provision of an annual opinion to the Council on internal control is a key duty of the Shared Internal Audit Service (SIAS) Head of Assurance and is timed to support the production of the Council's Annual Governance Statement.

1.3 Reporting the work of internal audit to Council Members 'charged with governance' gives them an opportunity to review and monitor this activity and gain assurance that its internal audit function is fulfilling its statutory obligations. This is an essential component of corporate governance.

1.4 Our opinion is based on the work of the audit service in the 2011/12 year. We are grateful for the co-operation and support we have received from all those who have engaged with the audit process, particularly during this transitional period for SIAS.

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2. Annual Assurance Statement 2011/12

Context

2.1 *Scope of responsibility*

The management of the Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The management of the Council is also responsible for ensuring that there is a sound system of internal control, which includes arrangements for managing risk.

2.2 *Control environment*

The Council's control environment comprises three key areas: internal control, governance and risk management arrangements.

Together these areas of the control environment are designed to manage risk to a reasonable level rather than eliminate risk completely. The purpose of these arrangements is to help ensure that the Council's policies, aims and objectives are achieved.

2.3 *Review of effectiveness*

As a pre-requisite for giving an assurance opinion on the overall adequacy and effectiveness of the Council's control environment, the Head of Assurance is required to confirm the effectiveness of the internal audit service and therefore its fitness for purpose to carry out work that informs the opinion.

The Head of Assurance of the Shared Internal Audit Service, which delivers internal audit services to the Council, has carried out an exercise to ensure the activity of the internal audit service has been carried out in accordance with the mandatory standards and good practice contained within the Chartered Institute of Public Finance and Accountancy (CIPFA) 2006 Code of Practice for Internal Audit in Local Government in the UK.

Further, an independent review of internal audit has taken place and the effectiveness of the service has been confirmed as a result. Detail of the key findings and recommendations of the independent review is shown in section 4 of this report.

2.4 *Basis of assurance opinion*

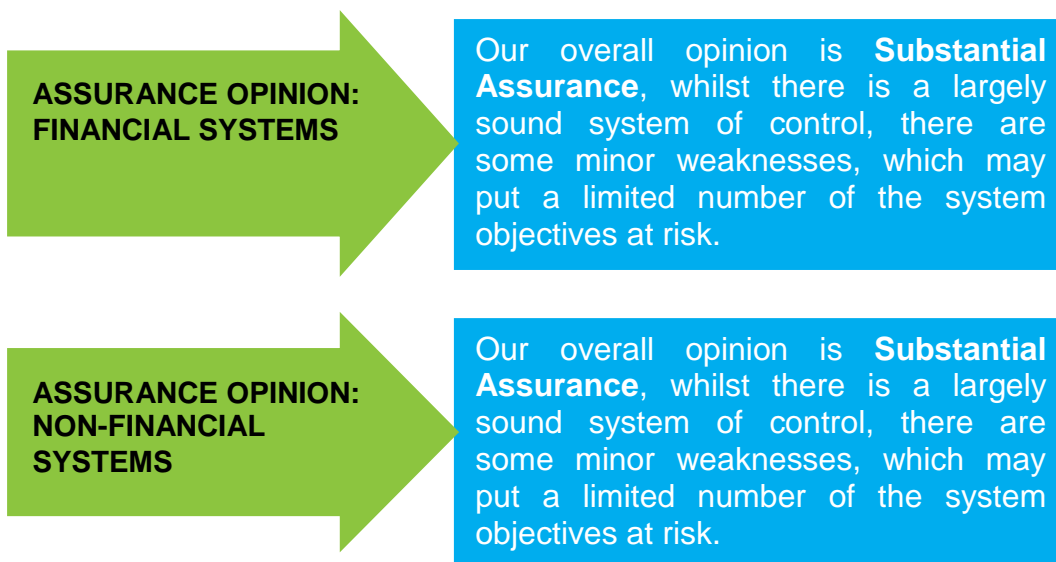
Our assurance opinion is based on the work carried out by SIAS during the year which has been planned in order to give sufficient assurance on the management of risks within the organisation.

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Annual Assurance Statement for 2011/12

2.5 *Assurance opinion on internal control*

From the internal audit work undertaken in 2011/12 it is our opinion that we can provide substantial assurance on the adequacy and effectiveness of the Council's control environment. The assurance is broken down between financial and non-financial systems as follows:



2.6 *Assurance opinion on Corporate Governance and Risk Management*

In our opinion the corporate governance and risk management framework substantially complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This conclusion is based primarily on the work undertaken by the Council and reported in its Annual Governance Statement for 2011-12. Further specific work was undertaken by SIAS related to the audit of the Council's risk management arrangements. This audit concluded that substantial assurance could be placed on current arrangements.

Head of Assurance for the Shared Internal Audit Service

May 2012



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3. Overview of Internal Audit Activity in 2011/12
- 3.1 This section of the report summarises the work of the audit service during the year, highlighting matters of significance in respect of the internal control environment and opportunities for improvement.
- 3.2 Appendix 1 lists the audit work that was completed for the 2011/12 year and the final position on the agreed audit plan. It shows the audits and their results in terms of the assurance level provided, together with the number of recommendations raised. The levels of assurance are summarised in the table below.

Assurance level	Number of reports	Percentage of reports
Full	0	0
Substantial	22	92%
Moderate	1	4%
Limited	1	4%
No	0	0
Total	24	100%

- 3.3 A break down of the categorisation of recommendations by audit is also shown in Appendix 1 and is summarised below:

Recommendation Priority level	Number of recommendations	Percentage of recommendations made
High	22	25%
Medium	43	48%
Merits Attention	24	27%
Total	89	100%

- 3.4 Because this is the first year of service delivery by SIAS, we have not presented comparative data in respect of previous years. It is our intention to do so in future years to help demonstrate the direction of travel of the control environment.
- 3.5 During the year the significant control matters outlined in sections 3.6 to 3.10 below were identified.

Matters relating to individual Assurance Opinions

3.6 Information Sharing

The audit of Information Sharing, given limited assurance, identified that there were significant weaknesses in key control areas, which put the system objectives at risk. Areas for improvement were identified as follows:

- The development of an information sharing protocol.
- The completion of an assessment of the sharing of information internally and with external partners and contractors.
- The creation of a Central Register for new and existing Information Sharing Protocols to enable these to be monitored.
- The implementation of a process to monitor information sharing activities for compliance with the Data Protection Act

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- 3.7 Our assurance surrounding the effectiveness of controls within the key financial systems does not cover the audits of Sundry Debtors and Creditors. Assurance over the effectiveness of controls within non-financial systems does not cover the audits of Corporate Business Planning and Parking Services. At the time of writing this report, these audits had been issued as drafts for discussion. An oral update on these audits will be given at the committee meeting.

Matters relating to High Priority Internal Audit Recommendations

- 3.8 An analysis of high priority recommendations relating to both North Herts District Council and all SIAS partners, was undertaken with the aim of identifying where:
- a) Related recommendations are indicative of a particular theme
 - b) A recommendation has a cross-Council impact
 - c) A gap exists in expected governance arrangements / policies
 - d) In our opinion an issue could have a significant adverse impact in future.
- 3.9 From this work, the Council's attention is drawn to the following areas where weaknesses have been identified in one or more of the partner authorities. It is recommended that the Council confirms that its arrangements in these areas are effective.
- Authorisation, write-off and refunds procedures
 - Business Continuity Planning and Disaster Recovery arrangements
 - Evidencing of expense claims
 - Health and safety arrangements
 - Change management and project management procedures
 - Compliance with the requirements of Contract Procurement Rules
 - Development of an IT Strategy

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4. Performance of the Internal Audit Service in 2011/12

Performance indicators

4.1 The table below compares the performance in 2011/12 of SIAS at North Herts District Council against targets set by the Board of the Shared Internal Audit Service.

Indicator	Target for 2011/12	Actual to 31 March 2012
1 SIAS Planned Days – percentage of actual billable days delivered against planned billable days	No target set because of the transitional year	95.3%* (324 billable days out of 340 possible billable days)
2 SIAS Planned Projects – actual completed projects to draft report stage against planned completed projects	No target set because of the transitional year	89.3% (25 projects out of an agreed 28 projects)
3 External Auditors' Satisfaction – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work	Formal Reliance	Achieved
4 SIAS Annual Plan – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the financial year	Deadline met	Achieved
5 Client Satisfaction - client satisfaction questionnaires returned at 'satisfactory overall' level	Score of at least 39/65 i.e. 'satisfactory' overall	100%
6 Head of Assurance's Annual Report – prepared in time to present to the first meeting of each Audit Committee in the financial year	Deadline met	Achieved
7 Number of High Priority Audit Recommendations agreed	95% agreed	100% Appropriateness of this PI currently under discussion

* Actual and planned billable days are taken from final position spreadsheet.

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Planned billable days figure of 340 days = 407 (agreed plan days) less 67 days (comprising 6 days unused follow-up, 36 unused consultancy, 8 days unused Careline, 9 days unused Mrs Howard Gardens and 8 days unused risk of fraud)

Review of Effectiveness

4.2 In accordance with CIPFA requirements, an exercise to review the effectiveness of Internal Audit has been undertaken. A peer review methodology was used, with the Director of Veritau (a local authority internal audit company owned by North Yorkshire County Council and York City Council) acting as lead assessor and the Transformation Manager from Hertfordshire County Council acting as support assessor. The objectives of the review were:

- To assess the effectiveness of the SIAS Partnership for key stakeholders, in particular whether SIAS is now meeting the key business objectives for which it was established in July 2011
- To meet the Code of Practice requirement for an annual review of effectiveness for internal audit
- To make recommendations to help improve the effectiveness of SIAS / develop the SIAS business where applicable

4.3 The main lines of enquiry were to assess the following areas from the original business case for SIAS:

- a) How resilient is the SIAS service;
- b) How efficient is the SIAS audit process;
- c) How far is SIAS a good place to work; and
- d) To review the SIAS vision for 2012-2014 considering whether the building blocks are in place for it to be delivered.

4.4 The assessors reviewed an evidence pack submitted by the Head of Assurance and interviewed various stakeholder groups representing: senior leaders; auditees; employees of SIAS and the SIAS management team.

4.5 The assessors' conclusions were:

- a) SIAS has built a good reputation and profile – especially at senior level
- b) SIAS has the support of the Board which has recognised the significant effort by SIAS staff to reach the current position
- c) The service is beginning to deliver additional value as a result of the opportunities presented by working together
- d) The original SIAS business case objectives relating to cost reduction and enhanced resilience have been delivered
- e) An increasingly risk based approach is being adopted with reports that are clearly focussed on key issues
- f) The Lean Audit Approach which has been adopted and understood by the team is leading to efficiencies
- g) The service is a good example that can be used for other areas looking to share services

4.6 The assessors recognised that further work is required to:

- a) Ensure consistency of approach where work is carried out on behalf of SIAS by its partner PWC

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- b) Ensure that all stakeholders understand the new approach
 - c) Improve communications at team level and help the team to understand their role in delivering the future vision of the service
 - d) Ensure that the service has the skills and competencies for the future given the changing nature of local government and the prospect of the service gaining future clients
 - e) Improve the way in which IT is used to support the service
 - f) Exploit opportunities for sharing learning across partner organisations
 - g) Review the performance information used by the service to ensure 'value-added' is better represented
- 4.7 Work is underway to determine steps to be taken to develop these areas. Proposals are to be developed for agreement at the SIAS Board and subsequent inclusion into the SIAS Service Plan.

Compliance with the CIPFA Code of Practice for Internal Audit in Local Government

- 4.8 A self-assessment was carried out by the Head of Assurance to confirm that the service is compliant with the CIPFA Code of Practice for Internal Audit in Local Government. This exercise was reviewed by Grant Thornton, External Auditors to four of the organisations which form the SIAS partnership. The conclusion of this review was:

‘SIAS completed a self assessment of their performance against the CIPFA Code of Practice for Internal Audit. Based on this review, we have not identified any major issues. In general, it appears that SIAS are meeting the requirements in place, with the only exceptions being annual reporting / review which had not happened at the time of the review, given that SIAS had not yet reached the end of the annual cycle.’

APPENDIX A - FINAL POSITION FOR THE 2011/12 AUDIT PLAN

2011/12 North Hertfordshire District Council Audit Plan

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
		H	M	L		
Asset Management and Capital Accounting	Substantial Assurance	0	2	1	15	Final Report Issued
Asset Management B/F	Substantial Assurance	2	7	0	5	Final Report Issued
Bancroft Redevelopment	Not Assessed				2	Cancelled
Benefits Realisation - Office Accommodation Project	Substantial Assurance	0	3	0	8	Final Report Issued
Careline	Not Assessed				10	Cancelled
Community Safety Partnership	Substantial Assurance	0	3	2	12	Final Report Issued
Consultants B/F	Moderate Assurance	6	6	2	1	Final Report Issued
Copyright Act - Software Licensing	Substantial Assurance	1	3	0	10	Final Report Issued
Corporate Business Planning*	Not Assessed				9	Draft Report Issued
Corporate Governance Arrangements	Not Assessed				0	Cancelled
Council Tax	Substantial Assurance	0	1	2	12	Final Report Issued
Council Tax Benefits & Rent Allowances	Substantial Assurance	1	1	0	15	Final Report Issued
Creditors	Not Assessed				10	Draft Report Issued

APPENDIX A - FINAL POSITION FOR THE 2011/12 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
Debtors*	Not Assessed				10	Draft Report Issued
Equalities and Diversity	Substantial Assurance	0	2	1	8	Final Report Issued
Externalisation of Document Management	Substantial Assurance	0	1	0	10	Final Report Issued
Grants to Voluntary and Community Groups and Individuals	Substantial Assurance	0	2	0	10	Final Report Issued
Herts Recycling Consortium	Not Assessed				2	Cancelled
Home Improvement Grants	Substantial Assurance	3	5	0	10	Final Report Issued
Information sharing	Limited Assurance	4	0	0	10	Final Report Issued
Internet and email	Substantial Assurance	0	0	1	10	Final Report Issued
Land Charges	Substantial Assurance	1	0	1	10	Final Report Issued
Leisure Management Contract	Substantial Assurance	1	2	2	10	Final Report Issued
Main Accounting System	Substantial Assurance	0	1	1	12	Final Report Issued
Management Information	Not Assessed				1	Cancelled
Mrs Howard Gardens Redevelopment	Not Assessed				10	Cancelled
Members' Interests	Substantial Assurance	1	2	1	1	Final Report Issued
NNDR (to include Business Improvement Districts)	Substantial Assurance	0	0	0	10	Final Report Issued

APPENDIX A - FINAL POSITION FOR THE 2011/12 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
Parking Services*	Not Assessed				15	Draft Report Issued
Payroll (inc Officers & Members)	Substantial Assurance	1	0	3	15	Final Report Issued
Risk Management	Substantial Assurance	0	1	4	10	Final Report Issued
Risk of Fraud	Not Assessed				10	Cancelled
Sun Street**	Not Assessed	0	0	0	3	Final Report Issued
NNDR B/F	Substantial Assurance	1	1	1	0	Final Report Issued
Treasury Management	Substantial Assurance	0	0	2	8	Final Report Issued
Client Liaison	N/A				40	On-going
Follow-Up	N/A				20	On-going
District Consultancy ***	N/A				43	On-going
SIAS Training					10	Completed
TOTALS		22	43	24	407	

Notes

* For the purposes of performance indicator 2 at section 4.1, these reports were not at draft report stage at 31 March 2012

** No opinion given as outcomes reported by memo

*** Support to the procurement process for the reletting of the Grounds Maintenance Contract

APPENDIX B - DEFINITIONS OF ASSURANCE LEVELS AND PRIORITY OF RECOMMENDATIONS

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.