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Final Internal Audit Report

North Herts District Council Performance Indicators

November 2020

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Various Managers across the Council

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Report Status: Final

Reference: N214/20/001

Overall Assurance: Satisfactory

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1. EXECUTIVE SUMMARY

Introduction

- 1.1 Internal Audit provides North Herts District Council (NHDC) with an independent and objective opinion on the organisation's governance arrangements, encompassing internal control and risk management, by completing an annual risk-based internal audit plan. This audit formed part of the approved 2020/21 Internal Audit Plan.
- 1.2 Local Government needs an effective performance management framework to help oversee the effective and efficient delivery of services. Establishing appropriate performance indicators (PIs) can form part of that framework and measure the performance of associated services and projects.
- 1.3 NHDC monitors PIs at corporate level and at service level. Recording PIs is carried out by the Performance and Risk Team by using Pentana software. There are 18 corporate PIs which are reviewed quarterly by Overview and Scrutiny Committee and Cabinet. The active service level PIs are monitored and managed by the various services for their own management information.
- 1.4 The purpose of this internal audit was to provide assurance that the corporate and service level performance indicators in use at NHDC are appropriately used and add value to the Council.

Overall Audit Opinion

- 1.5 Based on the work performed during this audit, we can provide overall **satisfactory assurance** that there are effective controls in operation for those elements of the risk management processes covered by this review. These are detailed in the Assurance by Risk Area Table in section 2 below.
- 1.6 We can confirm there is satisfactory use and monitoring of performance indicators across the Council. Data collected for performance indicators is prepared by officers and collated on Pentana by the Performance and Risk Team for quarterly reports to Overview & Scrutiny Committee.
- 1.7 As performance indicators are automated into Pentana from the data source system approval is needed by the Service Manager or Head of Service before being submitted. The Performance and Risk Manager carries out an additional sense check and will question large variances. We have found two PIS that were manually calculated. One PI was temporarily calculated manually due to issues with the data system and had evidence of clear calculations and a secondary check. A second PI was regularly calculated manually and had no evidence of a secondary check. We have therefore raised a recommendation to address this weakness.
- 1.8 There are annual reviews of corporate performance indicators to assess if they are fit for purpose and align to Council priorities, although there is no formal review process for service indicators. We found three sample service performance indicators that had not received a review in the past 12 months. Performance indicator managers and

owners are knowledgeable about their service and the data recorded in performance indicators for which they hold responsibility.

Audit Findings to Note

- 1.9 There is no formal benchmarking of performance indicators against similar authorities. National Indicators provide national statistics so officers can monitor NHDC performance against other Councils. Performance indicators can be bespoke to a Council after consideration of corporate objectives and service priorities, therefore benchmarking may not always be a necessary tool.
- 1.10 Poor performance is monitored by the performance indicator manager, owner and Members of the Overview & Scrutiny Committee. From a sample of seven performance indicators (two corporate and five service) we sought to confirm if performance indicators can influence change. This varies greatly depending on what the performance indicator is monitoring. From the sample we looked at, we can confirm that if performance is continually above or below target action is taken to either alter the performance target or put measures in place to achieve the target.
- 1.11 For definitions of our assurance levels, please see Appendix B.

Summary of Recommendations

- 1.12 We have made three recommendations, one classified as Medium priority and two classified as Low priority, to further strengthen the control environment.
- 1.13 Please see Management Action Plan at Appendix A for further detail.

Annual Governance Statement

- 1.14 This report provides satisfactory levels of assurance to support the Annual Governance Statement.

2. ASSURANCE BY RISK AREA

2.1 Our specific objectives in undertaking this work, as per the Terms of Reference, were to provide the Council with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:

Risk Area	No	Limited	Satisfactory	Good
Use of Performance Indicators – Performance Indicators support the Council’s objectives; they are proportionate and comparable to other Local Authorities.				
Reporting of Performance Indicators - Performance Indicators are collated with transparency, consistently reported and are accurate. Performance Indicators are appropriately scrutinised and changes are made where required.				
Value Derived from Performance Indicators - Performance Indicators are relevant, meaningful and help improve performance. Management is aware of forthcoming changes in their area and use Performance Indicators to help set service objectives.				
Overall				

2.2 See definitions for the above assurance levels at Appendix B.





No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	<p>Service Review of Performance Indicators</p> <p>Corporate performance indicators are reviewed annually at Overview & Scrutiny Committee. There is no mandatory requirement or process for service performance indicators to be reviewed periodically.</p> <p>We found three of the five sample service performance indicators had not received a formal review within the last year. Where indicators are national or performing well managers do not believe a review is necessary.</p> <p>SMT carry out a review of overall service performance, but not performance indicators.</p> <p><u>Associate Risk</u></p> <p>Management do not understand or review the requirements of the authority or the objectives and therefore performance is not sustained or improved.</p>	Low	<p>We recommend consideration is given to carrying out a formal performance indicator review as part of the annual service planning process. This review should consider if the benefits of the performance indicator outweigh the time and resource to collate data.</p> <p>We further recommend that inline with the above, or as an alternative, an officer scrutiny panel reviews service performance indicators annually.</p>	<p>Responsible Officer:</p> <p>Controls, Risk & Performance Manager / Performance and Risk Officer</p> <p>All Service Pi's to be incorporated into the annual target setting process. Managers to confirm PI is still relevant and set target for the year where appropriate.</p> <p>SMT to see the annual report once compiled to provide oversight.</p>	<p>January 2021</p> <p>Feb / March 2021</p>

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2.	<p>Independent Challenge of Performance</p> <p>The Overview and Scrutiny Committee (OSC) are responsible for reviewing and challenging the performance of the Council. In order to undertake this, performance indicators are reported to the Committee quarterly.</p> <p>Our review of OSC minutes confirms that performance was reported to the Committee regularly.</p> <p>However, the minutes from OSC do not provide evidence that sufficient challenge of performance is provided on the performance reported to the Committee. As a result, we have been unable to provide assurance that there is adequate challenge from Members.</p> <p>As a result of the above finding, we have concluded that either:</p> <ol style="list-style-type: none"> a) Challenge is not provided by Members of OSC; or b) Where challenge is made on performance, this is not recorded within the minutes. 	Medium	<p>We recommend minutes from the Overview & Scrutiny Committee provide more detail of the challenge provided by Members. This will ensure that there is transparent accountability for the Council's performance and that robust audit trails are retained.</p> <p>Members should also be reminded of their role to provide independent challenge and should be asking questions around performance indicators that are flagged as red or amber. In addition, Members should be seeking assurance that where performance is below expectations or targets that actions are in place to address the issue.</p>	<p>Responsible Officer: – Member, Committee and Scrutiny Manager / Controls Risk and Performance Manager / Chair of Overview and Scrutiny</p> <p>All Committee meetings are now audio recorded and live streamed on the Councils You Tube Channel. The recordings are available via Modgov / Council Website. These are now formally part of the minutes.</p> <p>The Peer Challenge in January 2020 identified the following action “Peers understand that the full performance report is sent to councillors one month before O&S to provide the opportunity for requesting the appropriate lead executive member and officer to attend O&S to be accountable for questioning. This opportunity has never been requested</p>	Already in Place

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p><u>Associated Risk</u></p> <p>Members may not adequately challenge Council performance which may result in action not being taken to address poor performance.</p>			<p>and should be used in order to strengthen the debate and challenge at O&S”</p> <p>The reminder to O&S was given to the members of O&S by the Chair, Cllr Levett.</p> <p>Emails sent to O&S 1 month prior to the meeting, include the wording that questions and requests for Exec Member attendance can be submitted.</p> <p>We will raise this audit finding at the next meeting of Overview and Scrutiny in December to reinforce the message.</p>	08/12/2020
3.	<p>Accuracy of Data</p> <p>We found all bar two performance indicators are calculated automatically using the source system. However, we found two samples that were using manual calculations.</p> <p>Due to a delay in the payroll system BV12a was being calculated</p>	Low	We recommend the Performance and Risk Officer seeks confirmation of accuracy of data before receiving manually calculated performance indicators.	<p>Responsible Officer: Performance and Risk Officer</p> <p>Checking of data already takes place prior to the Performance and Risk Officer loading into Pentana. Future emails to be retained as</p>	30/11/2020

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>manually for the first quarter of this year. This performance indicator was subject to a second officer accuracy check as a result of manual calculations being used.</p> <p>RES 1 is calculated manually as data is received from the energy portal. Our testing has confirmed that there has been no second check performed on the manual calculations.</p> <p><u>Associated Risk</u></p> <p>PIs are incorrectly calculated. This could result in inaccurate or inconsistent performance reports that could mislead management into making decisions that do not benefit the Council to deliver services.</p>			evidence of check / challenge	

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level			Definition
Corporate	Critical		Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium		Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.