



## North Herts District Council Audit Committee Progress Report 18 December 2017

### Recommendations

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 1 December 2017,
- Note the proposed amendments to the 2017/18 Annual Audit Plan, and
- Note the implementation status of high priority recommendations.

# Contents

- 1 Introduction and Background
  - 1.1 Purpose
  - 1.2 Background
- 2 Audit Plan Update
  - 2.1 Delivery of Audit Plan and Key Findings
  - 2.4 Medium Priority Recommendations
  - 2.5 High Priority Recommendations
  - 2.8 Proposed Amendments to the 2017/18 Annual Audit Plan
  - 2.9 Performance Management

## Appendices

- A Progress against the 2017/18 Audit Plan
- B Implementation Status of High Priority Recommendations
- C 2017/18 Audit Plan Items – Start dates agreed with management
- D Audit Recommendation Ratings

# 1. Introduction and Background

## Purpose of Report

1.1 This report details:

- a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2017/18 as at 1 December 2017.
- b) Implementation status of previously agreed high priority audit recommendations and request to agree removal of completed actions.
- c) Proposed amendments to the 2017/18 Annual Audit report
- d) An update on performance management information as at 1 December 2017.

## Background

- 1.2 The 2017/18 Annual Audit Plan was approved by the Finance, Audit and Risk Committee (the FAR Committee) on 22 March 2017.
- 1.3 The Committee receives periodic updates of progress against the Annual Internal Audit Plan. This is the third report giving feedback on the delivery of the 2017/18 Internal Audit Plan.
- 1.4 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

# 2. Audit Plan Update

## Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 1 December 2017, 56% of the 2017/18 Audit Plan days had been delivered.
- 2.2 The following 2016/17 final report has been issued since 28 August 2017 (cut-off date for the SIAS Update Report for 21 September 2017 FAR Committee):

<b>Audit Title</b>	<b>Date of Issue</b>	<b>Assurance Level</b>	<b>Number of Recommendations</b>
Joint review - PREVENT	Nov 2017	N/A	N/A (5 suggested control enhancements – 2 with relevance to NHDC)

The following 2017/18 final reports have been issued since 28 August 2017 (cut-off date for the SIAS Update Report for 21 September 2017 FAR Committee):

<b>Audit Title</b>	<b>Date of Issue</b>	<b>Assurance Level</b>	<b>Number of Recommendations</b>
Office Accommodation Project	Sept 2017	Substantial	2 medium 2 merits attention
DFG Capital Grant Certification	Sept 2017	N/A	N/A
Serious Organised Crime Checklist	Nov 2017	N/A	N/A (3 audit advisory actions)
Income Generation	Nov 2017	N/A	N/A (consultancy review with 7 recommendations)

- 2.3 Details on the status of all audits in this year's plan can be found in Appendix A.

#### Medium Priority Recommendations

- 2.4 The table below provides a summary of the medium priority recommendations made in the period:

<b>Audit</b>	<b>Summary of medium priority recommendations</b>
Office Accommodation Project	<ul style="list-style-type: none"> <li>• The tolerances within which the Project Manager works are agreed and clarified.</li> <li>• The Project Board meets at the specified frequency.</li> </ul>

#### High Priority Recommendations

- 2.5 Members will be aware that a Final Audit Report is issued when it has been agreed by management; this includes an agreement to implement the recommendations that have been made. It is SIAS's responsibility to bring to Members' attention the implementation status of high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.
- 2.6 No high priority recommendations have been made as a consequence of the work undertaken in the audits detailed in paragraph 2.2 above.
- 2.7 The standard template schedule attached at Appendix B shows the implementation status of previously agreed high priority audit recommendations.

## Proposed Amendments to the 2017/18 Annual Audit Plan

- 2.8 No new audits have been added or existing audits deleted from the 2017/18 Audit Plan since the last meeting of FAR.

Small changes have been made to the budgets for a number of audits as agreed with the Head of Finance, Performance and Asset Management. The changes have been made to reflect adjustments to the scope of these audits from that originally agreed. Full details can be provided if required.

### Performance Management

### Reporting of Audit Plan Delivery Progress

- 2.9 To help the Committee assess the current situation in terms of progress against the projects in the audit plan, we have provided an overall progress update in the table below. In addition, we have agreed formal start dates with management and have allocated resources accordingly; details can be found in Appendix C. This is designed to facilitate audit plan delivery throughout the year.

<b>Completed - Draft or Final report has been issued (12)</b>	
Confidence level in completion of this work – Full	
Use of Consultants (16/17)	Hitchin Town Hall & Museum Operation
Careline (16/17)	Joint Review – PREVENT (16/17)
RPR Process (16/17)	Review of FAR
Office Accommodation Project	DFG Capital Grant Certification
Income Generation	SOCA Fraud Checklist
Business Improvement Districts (BIDs)	Payroll

<b>Fieldwork currently being carried out or in Quality Review (11)</b>	
Confidence level in completion of this work – Full	
Joint Review - Local Authority Trading (16/17)	Taxi Licensing
Tree Strategy & Management	Hitchin Town Hall & Museum Project (16/17)
Northgate Contracts	General Ledger
Member Training	New Integra system implementation – consultancy
Telephony System Post implementation review	Treasury Management
Paperless Committee System	

<b>Scope and Start date agreed with Management - preliminary work has begun (6)</b>	
Confidence level in completion of this work – Good – resources have been allocated to these activities by SIAS and management has agreed the way forward; dates are planned in diaries.	
Debtors	Creditors
Council Tax	NDR
Benefits & Rent Allowances	Cyber Risks

<b>Formal start dates not yet agreed (7)</b>	
Confidence level in completion of this work – Moderate – resources have been allocated by SIAS but dates have not yet been planned in diaries; generally these audits are more complex and will need good engagement with management to ensure delivery	
<b>Audit</b>	<b>Status Update</b>
Commercialisation / Council Company	Outbound New Mail System
NHLC Refurbishment	Waste Contract – New Arrangements Progress
Joint Review 1 (subject to be determined by SIAS Board)	Joint Review 2 (subject to be determined by SIAS Board)
King George V Playing Fields	

<b>Deferred (0)</b>	
N/A	

<b>Cancelled (2)</b>	
Asset Management System	Green Space Strategy (16/17)

<b>Summary – 1 December 2017</b>		
<b>Status</b>	<b>No of Audits at this Stage</b>	<b>% of Total Audits (36)</b>
Draft / Final	12	33%
Currently in Progress	11	31%
Start Date Agreed	6	17%
Yet to be planned	7	19%

Deferred	0
Cancelled	2

- 2.10 Annual performance indicators and associated targets were approved by the SIAS Board in March 2017.
- 2.11 As at 1 December 2017, actual performance for North Herts against the targets that can be monitored in year was as shown in the table below.

<b>Performance Indicator</b>	<b>Annual Target</b>	<b>Profiled Target to 1 December 2017</b>	<b>Actual to 1 December 2017</b>
<b>1. Planned Days</b> – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	59% (225 / 384.5 days)	56% (215 / 384.5 days)
<b>2. Planned Projects</b> – percentage of actual completed projects to draft report stage against planned completed projects	95%	47% (17 / 36 projects)	33% (12 / 36 projects)
<b>3. Client Satisfaction with Conduct of the Audit</b> – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (10 questionnaires sent and 3 returned)
<b>4. Number of High Priority Audit Recommendations agreed</b>	95%	N/A	N/A - none made

2.12 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2017/18 Head of Assurance's Annual Report:

- **5. 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.
- **6. 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.
- **7. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

## **APPENDIX A - PROGRESS AGAINST THE 2017/18 AUDIT PLAN AS AT 1 DECEMBER 2017**

### **2017/18 SIAS Audit Plan**

<b>AUDITABLE AREA</b>	<b>LEVEL OF ASSURANCE</b>	<b>RECOMMENDATIONS</b>			<b>AUDIT PLAN DAYS</b>	<b>LEAD AUDITOR ASSIGNED</b>	<b>BILLABLE DAYS COMPLETED</b>	<b>STATUS / COMMENTS</b>
<b>Key Financial Systems</b>								
General Ledger					10	Yes	2	In Fieldwork
Debtors					10	Yes	0.5	ToR Issued
Creditors					10	Yes	0.5	ToR Issued
Treasury Management					6	Yes	1	In Fieldwork
Council Tax					12	Yes	1	ToR Issued
NDR					10	Yes	0.5	ToR Issued
Benefits & Rent Allowances					10	Yes	0.5	ToR Issued
Payroll					10	Yes	9.5	Draft Report Issued
New Integra system implementation - consultancy					10	Yes	5	In Fieldwork
<b>Operational Audits</b>								
Business Improvement Districts (BIDs)					10	Yes	9.5	Draft Report Issued
Office Accommodation Project	Substantial	0	2	2	14	Yes	14	Final Report Issued
HTH & Museum - operation	Moderate	0	4	2	14	Yes	14	Final Report Issued
Tree Strategy & Management					12	Yes	10.5	Quality Review
Taxi Licensing					12	Yes	11	Quality Review
Income Generation	Not assessed	0	0	0	15	Yes	15	Final Report Issued
Commercialisation / Council Company					12	Yes	0	Allocated
Paperless Committee System					10	Yes	6	In Fieldwork



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<b>AUDITABLE AREA</b>	<b>LEVEL OF ASSURANCE</b>	<b>RECOMMENDATIONS</b>			<b>AUDIT PLAN DAYS</b>	<b>LEAD AUDITOR ASSIGNED</b>	<b>BILLABLE DAYS COMPLETED</b>	<b>STATUS / COMMENTS</b>
Telephony System - post implementation review					10	Yes	8.5	Quality Review
Outbound mail - new system					10	Yes	0	Allocated
Member Training					10	Yes	6	In Fieldwork
<b>Procurement / Contracts</b>								
NHLC Refurbishment					12	Yes	0	Allocated
Waste Contract - new arrangements progress					10	Yes	0.5	In Planning
Northgate Contracts					12	Yes	6.5	In Fieldwork
Serious and Organised Crime Agency (SOCA) Fraud Checklist	Not assessed	0	0	0	10	Yes	10	Final Report Issued
<b>Joint Reviews</b>								
Joint Review 1					2.5	No	0	Allocated
Joint Review 2					2.5	No	0	Allocated
Shared Learning					5	Yes	3.5	Through Year
<b>IT Audits</b>								
Cyber-risks					10	Yes	2	In Planning
Asset Management System					0	N/A	0	Cancelled
<b>Anti-Fraud and Governance</b>								
Internal control issues identified by SAFS					5	N/A	0	As required
<b>Contingency &amp; Ad Hoc Activity</b>								

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<b>AUDITABLE AREA</b>	<b>LEVEL OF ASSURANCE</b>	<b>RECOMMENDATIONS</b>			<b>AUDIT PLAN DAYS</b>	<b>LEAD AUDITOR ASSIGNED</b>	<b>BILLABLE DAYS COMPLETED</b>	<b>STATUS / COMMENTS</b>
Contingency & Ad Hoc Activity					15.5			
Election Support					0	N/A	0	Cancelled
Review of FAR	Not assessed	0	0	0	3	Yes	3	Final Report Issued
DFG Capital Grant certification	Not assessed	0	0	0	2	Yes	2	Complete
King George V Playing Fields					1	Yes	0	Allocated
<b>Strategic Support</b>								
Head of Internal Audit Opinion 2016/17					5	Yes	5	Complete
Audit Committee					12	Yes	9	Through Year
Client Meetings					10	Yes	7.5	Through Year
Liaison with External Audit					1	Yes	1	Through Year
Progress Monitoring					10	Yes	7.5	Through Year
SIAS Development					5	Yes	5	Through Year
2018/19 Audit Planning					10	Yes	0	Allocated
<b>2016/17 Projects requiring completion</b>					2	Yes	2	Complete
HTH & Museum Project					11	Yes	9.5	In Fieldwork
Careline Operation	Substantial	0	3	1	12.5	Yes	12.5	Final Report Issued
Appraisal Process	Full	0	0	0	7.5	Yes	7.5	Final Report Issued
Green Space Strategy					0.5	N/A	0.5	Cancelled
Use of Consultants	Substantial	0	0	3	5		5	Final Report Issued

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<b>AUDITABLE AREA</b>	<b>LEVEL OF ASSURANCE</b>	<b>RECOMMENDATIONS</b>			<b>AUDIT PLAN DAYS</b>	<b>LEAD AUDITOR ASSIGNED</b>	<b>BILLABLE DAYS COMPLETED</b>	<b>STATUS / COMMENTS</b>
Joint Review - Local Authority Trading					0.5		0	In Fieldwork
Joint Review - PREVENT	Not assessed	0	0	0	0.5		0.5	Final Report Issued
Corporate Project Management	Moderate	0	3	1			0	Final Report Issued
Contract Management	Substantial	0	1	2			0	Final Report Issued
Payroll	Substantial	0	3	1			0	Final Report Issued
NDR	Full	0	0	0			0	Final Report Issued
<b>Total - North Herts D.C.</b>		<b>0</b>	<b>16</b>	<b>12</b>	<b>400</b>		<b>215</b>	

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment December 2017	Status of Progress
1.	Waste Contract  August 2016	As part of the contract renewal process, formal requirements regarding the quality of performance data provided by the contractor should be included in the terms and conditions of the contract. This should include mechanisms by which the Council can both directly access the data and require the contractor to undertake (either directly or commissioned by the Council) data quality audits should these be deemed necessary.	The upgrade to the waste management IT software is expected to be in place by mid-2016. This will give officers direct access to the system.	Service Manager (Waste and Recycling)	<del>31 July 2016</del> 29 September 2017	<p>Service Manager (Waste and Recycling)</p> <p><u>November 2017</u> Formal requirements have been included in the new contract specification for provision of auditable performance data including for the PMR. Data will be available through the contract IT system for which the council will have full access.</p> <p><u>March 2017</u> The domestic collections are being managed through the new IT system with officers having full access. The system is being set up for trade waste collections, which are anticipated to go live by June 2017. An upgrade to the corporate financial</p>	The Waste and Street Cleaning Contracts have been awarded. Contract mobilisation work has started.	<b>Implemented</b>

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment December 2017	Status of Progress
			Greater integration with the NHDC customer service centre and website will be possible with the new system and these options	Service Manager (Waste and Recycling), Comms Manager, Customer Services Manager.	30 April 2017 29 September 2017	<p>system Integra means full set up of chargeable services is on hold indefinitely, with a review required once the Integra upgrade is complete and the new contract is awarded in late 2017.</p> <p><u>December 2016</u> IT system up and running for domestic collections, implementation for trade is delayed due to staff vacancies.</p> <p><u>November 2017</u> In addition to the comments provided in the first part of the recommendation above, contract mobilisation will include development of the systems to meet the new specified contract requirements and to</p>	The Waste and Street Cleaning Contracts have been awarded. Contract mobilisation work has started.	<b>Implemented</b>

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment December 2017	Status of Progress
			will be explored to reduce the risk of data transfer errors in relation to contacts reported by the public. This will be subject to cost but can be considered further for the implementation of the new contract, alongside decisions regarding the management of customer contacts.			<p>optimise their potential. A key part of this work will include integration of IT systems and operational processes with East Herts Council by contract commencement in May 2018. There will also be integration work required with NHDC systems, such as online forms on our website.</p> <p><u>March 2017</u> Officers now have full system access and a series of reports are in development. Ad hoc variation orders are being processed using Integra for greater transparency. The new contract specification is in draft, which includes data access and reporting requirements. Project Board decisions have resulted in a specification</p>		

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment December 2017	Status of Progress
						to include customer service provision, therefore no work will be undertaken to improve website and current system integration in advance of the new contract.  <u>December 2016</u> New contract client team discussions and IT approach likely to begin in early 2017.		
2.	Waste Contract  August 2016	Officers are aware of the weaknesses in the current performance management regime and given that the existing contract is due for renewal and that service delivery is adequate, we do not recommend that any action is now	Evidence exists that both parties agreed to implement the system on 2 <sup>nd</sup> September 2002. It is understood that the regime was in place for approximately	Service Manager (Waste and Recycling)	Development of PMR specification for new contract due September 2016  Revised date 31 August 2018	Service Manager (Waste and Recycling)  <u>November 2017</u> A fully considered and costed PMR has been developed and included in the new joint contract specification, taking into account the learnings from the current contract. The mechanisms required to	The Waste and Street Cleaning Contracts have been awarded. Contract mobilisation work has started.	<b>Implemented</b>

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment December 2017	Status of Progress
		<p>taken to enforce the performance management regime for the existing contract, as the effort required is unlikely to yield any substantial benefits prior to the contract expiring.</p> <p>However, the Council should ensure that it factors its experience with the current contract into the process for developing performance management on the new contract. This should include:</p> <ul style="list-style-type: none"> <li>investigating and understanding why it was not implemented for the current contract</li> </ul>	<p>5 years but no data exists for this period. No officers from the current management team were present at this time and the regime in place was not sufficient to effectively monitor performance after service changes and contract extension in 2007. Efforts to review the matrix in 2011/12 failed to reach agreement and was resource intensive due</p>			<p>deliver it effectively will be implemented as part of contract mobilisation.</p> <p><u>July 2017</u> New PMR has been developed and published to bidders as part of the tender for the new waste collection and street cleansing service. This will come into effect following a three month bedding in period following the start of the contract in May 2018.</p> <p><u>May 2017</u> The PMR is currently being finalised due for publishing alongside the ITT in early June 2017. Upon contract award, mechanisms for monitoring the requirements of the new PMR will be developed within the IT systems. The PMR will begin to be used</p>		



No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment December 2017	Status of Progress
		<ul style="list-style-type: none"> <li>specification of a detailed performance management regime which is formally agreed by all partners at the commencement of the new contract; and</li> <li>Monitoring the implementation of the new regime to ensure it is being applied rigorously from the start of the new contract.</li> </ul>	<p>to the lack of access to and reporting from a suitable waste management software system.</p> <p>It is anticipated that the upgraded IT system will provide sufficient reporting to inform a new PMR system for the new contract.</p>			<p>after a short bedding in period, likely to be August 2018.</p> <p><u>March 2017</u> Negotiations are ongoing with EHC regarding the approach to performance management in the new contract specification. Agreement is required by March 2017.</p> <p><u>December 2016</u> Discussions ongoing, PMR specification due to be completed by January 2017</p>		

NHDC 2017/18 Audit Plan Start Months											
Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
SOCA Fraud Checklist <b>Final Report Issued</b>	Office Accommodation Project <b>Final Report Issued</b>	RPR Process (16/17) <b>Final Report Issued</b>	Telephony System Post implementation review <b>Quality Review</b>	DFG certification <b>Completed</b>	Commercialisation / Council company <b>Moved to December</b>	NHLC Refurbishment <b>Moved to January</b>	Payroll <b>Draft Report Issued</b>	Benefits <b>Moved to January</b>	Outbound mail system	Waste Contract <b>In Planning</b>	Waste Contract <b>Moved to February</b>
Review of FAR <b>Completed</b>	Income Generation <b>Final Report Issued</b>	Cyber risks <b>Moved to December</b>	Northgate Contracts <b>In Fieldwork</b>	Integra system implementation <b>In Fieldwork – contingent on project completion date</b>		General Ledger <b>In Fieldwork</b>	NDR <b>Terms of Reference Issued</b>	Treasury Management <b>Terms of Reference Issued</b>	Asset Management system <b>Cancelled</b>		
Paperless committee system <b>Moved to November</b>	HTH & Museum operation <b>Final Report Issued</b>		Business Improvement Districts <b>Draft Report Issued</b>	Member Training <b>In Fieldwork</b>		Debtors <b>Terms of Reference Issued</b>	Council Tax <b>Terms of Reference Issued</b>	King George V Playing field	Joint Reviews (2)		
Member Training <b>Moved to August</b>						Creditors <b>Terms of Reference Issued</b>	Taxi Licensing <b>Quality Review</b>	Commercialisation / Council company	NHLC Refurbishment		
Joint Review – PREVENT (16/17) <b>Final Report Issued</b>							Tree Strategy & Management <b>Quality Review</b>	Cyber Risks <b>In Planning</b>	Benefits <b>Terms of Reference Issued</b>		
Joint Review – Local Authority Trading (16/17) <b>In Fieldwork</b>							Paperless committee system <b>In Fieldwork</b>				

Careline (16/17) <b>Final Report Issued</b>											
Hitchin Town Hall Project (16/17) <b>In Fieldwork</b>											
Consultants (16/17) <b>Final Report Issued</b>											
Green Space (16/17) <b>Cancelled</b>											

## BACKGROUND

The Public Sector Internal Audit Standards (PSIAS) give clear guidance on criteria for communicating results and expectations regarding the audit engagement's assurance opinion but is silent on grading internal audit recommendations.

## CURRENT APPROACH

The SIAS Audit Manual provides guidance on the priority level for internal audit recommendations made to mitigate the risk of the process subject to audit not achieving its objectives. Currently these are as follows:

Priority of Recommendations	
Category	Definition
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 findings merits attention by management.

Grading or prioritisation serves to separate out important, significant or critical actions from those that are less so. Some findings are high priority because of their impact on the Council as a whole, and others because they are critical within an individual service or system.

Ratings are determined following the consideration of the potential likelihood of a control weakness occurring, and the potential impact of such a failure on the system objectives.

Initial recommendation priority assessments are reviewed / challenged within SIAS's internal quality review processes and reason for the challenge and outcomes are recorded. This supports the consistent application of audit recommendation ratings across audits / clients.

Once the draft is issued, client management have an opportunity to further challenge the ratings and reasonable negotiation can take place over these. The target date for implementation of agreed management actions to address recommendations made should always be consistent with the priority level of the recommendation and may be challenged where necessary during the draft to final phase of the audit.