INTERNAL AUDIT PROGRESS REPORT

NORTH HERTS DISTRICT COUNCIL
FINANCE, AUDIT AND RISK COMMITTEE
JUNE 2021

RECOMMENDATIONS
- Note the SIAS Progress Report for the period to 4 June 2021,
- Note the implementation status of High priority recommendations.

Contents

Appendices

1. Introduction and Background

<u>Purpose of Report</u>

1.1   This report details:

   a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Internal Audit Plan for 2021/22 as at 4 June 2021.
   b) Implementation status of previously agreed high priority recommendations.
   c) Annual Internal Audit Plan Progression for 2021/22.
   d) An update on performance indicators as at 4 June 2021.

<u>Background</u>

1.2   The 2021/22 Internal Audit Plan was approved by the Finance, Audit and Risk Committee (the FAR Committee) on 8 March 2021.

1.3   The Committee receives periodic updates of progress against the Annual Internal Audit Plan. This is the first report giving an update on the delivery of the 2021/22 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

<u>Delivery of Audit Plan and Key Audit Findings</u>

2.1   As at 4 June 2021, 22% of the 2021/22 Audit Plan days had been delivered.

2.2   The following 2020/21 final reports have been issued since 12 February 2021 (cut-off date for the SIAS Update Report for 8 March 2021 FAR Committee):

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Revenues	March 2021	Good	1 Medium
Integra2	March 2021	Satisfactory	1 Medium, 3 Low
Commercial Strategy	March 2021	Satisfactory	3 Medium, 1 Low
Waste Contract Follow Up	March 2021	Satisfactory	2 Medium, 1 Low
Benefits	March 2021	Good	3 Low

Parking Income	April 2021	Good	None

2.3   SIAS has not yet issued any final reports relating to the 2021/22 Annual Audit Plan.

2.4   In April 2020, within their publication "Internal Audit Engagement Opinions – Setting Common Definitions", CIPFA recommended that a standard range of opinions and definitions were used by Internal Audit teams within the intention of:

- Increasing confidence amongst audit committee members and managers that the engagement opinion issued is consistently applied.
- Assist the sharing, comparability and understanding of assurances across public bodies.
- Supporting audit committee members and senior managers in their understanding of audit reports, in particular those that sit on more than one public sector audit committee, or in respect of partnerships and joint ventures.
- Supporting the training of internal audit staff, helping to drive up the quality and consistency of audit opinions, and facilitate staff moving across different internal audit teams.
- Reducing disruption when changing internal audit provider.

2.5   CIPFA provided the following four assurance opinions and definitions.

Assurance Level	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

2.6   Within their conclusions, CIPFA recommended that all Heads of Audit within public sector organisations adopted the above change, with those

organisations not adopting the change disclosing the basis for this within their annual report.

2.7   In respect of implementing the above changes, this is seen as a minor adjustment to the existing SIAS ratings, given SIAS already adopt a four-tier rating with very similar definitions. The main change would therefore be replacing Good and Satisfactory Assurance with the new ratings of Substantial and Reasonable Assurance.

2.8   SIAS has adopted the above change for all final reports issued from 1 April 2021, with the exception of any draft reports already issued to management prior to new financial year.

High Priority Recommendations

2.9   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.

2.10   There were no high priority recommendations made as a result of work undertaken in the audits detailed in paragraph 2.2 above.

2.11   The standard template schedule attached at Appendix B shows the management response, target implementation date and the implementation status of the agreed high priority audit recommendations that are currently not yet implemented. Management have provided assurance that all high priority recommendations are now implemented, and as such will be removed from the schedule at the next update.

Proposed Amendments

2.12   SIAS has returned a total of 7.5 days to contingency as a result of the time required for 2020/21 Projects Requiring Completion being less than originally anticipated during the setting of the 2021/22 plan.

2.13   As agreed with management, the following audits have been added to the Audit Plan since the original plan was approved in March 2021:

a) LA Track and Trace Grant – 2 days from contingency
b) Energy Improvement in Park Homes Grant – 2 days from contingency

2.14   Following the above changes, there remains 3.5 days in contingency.

Performance Management: Reporting of Audit Plan Delivery Progress

2.15   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 of delivery against planned commencement dates at Appendix C. The table below shows that summary of performance based in the latest performance information reported at Appendix A.

Status	No of Audits at this Stage	% of Total Audits (27)	Profile
Draft / Final Report Issued	1	4%	(4/27)
In Fieldwork / Quality Review	6	22%	(2/27)
Terms of Reference Issued / In Planning	1	4%	(3/27)
Not Yet Started	19	70%	(18/27)

2.16   Annual performance indicators and associated targets were approved by the SIAS Board in March 2020. As at 4 June 2021, actual performance for North Herts District Council against the targets that can be monitored in year was as shown in the table below:

Performance Indicator	Annual Target	Profiled Target to 4 June 2021	Actual to 4 June 2021
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	23% (61 / 266.5 days)	22% (58.5 / 266.5 days)
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	15% (4 / 27 projects)	4% (1 / 27 projects)
3. Client Satisfaction with Conduct of the Audit – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	None received in this reporting period
4. Number of High Priority Audit Recommendations agreed	95%	95%	No high priority recommendations

2.17   In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2021/22 Head of Assurance's Annual Report:

▪   **5. 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.

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

APPENDIX A – PROGRESS AGAINST THE 2021/22 AUDIT PLAN AS AT 4 JUNE 2021

2021/22 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Financial Systems Audits									
Grant Administration						8		0	
Discretionary Housing Payments						8	SIAS	6	In Fieldwork
Resilience in Revs and Bens						8		0	
Integra Automation						8		0	
Non-UK Purchases						6		0	
Investments						6		0	
Corporate Audits									
Covid-19 Response						15	SIAS	0	Allocated
Covid-19 Recovery – Phase 1						10	SIAS	3	In Fieldwork
Covid-19 Recovery – Phase 2						10		0	
Shaping Our Future						15		0	
Climate Emergency						10		0	
Operational Audits									
Breathing Space (Debt Recovery)						10	SIAS	0	Allocated
Income Generation (Selling our Services)						10	SIAS	6	In Fieldwork
Customer Services Strategy						10	SIAS	9.5	Draft Report Issued
Anti-Social Behaviour						10		0	
Partnerships						15		0	
Financial Resilience of Suppliers Follow Up						2	SIAS	0	Allocated

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Development Management Follow Up						2	SIAS	0	Allocated
LA Track and Trace Grant						2	SIAS	0.5	In Planning
Energy Improvement to Park Homes Grant						2	SIAS	0	Allocated
Review of FAR						5	SIAS	4	Quality Review
King George V Playing Fields						1	SIAS	0	Allocated
Workman's Hall						1	SIAS	0	Allocated
Contract Audits									
Leisure Contract						15	SIAS	10	In Fieldwork
IT Audits									
Data Breaches						10	BDO	0	Allocated
Cloud Computing						10	BDO	5	In Fieldwork
Freedom of Information and Subject Access Requests						10	BDO	0	Allocated
Shared Learning and Joint Reviews									
Joint Reviews						3	N/A	0	Through Year
Shared Learning						2	N/A	0	Through Year
Contingency									
Contingency						3.5	N/A	0	Through Year
Client Management - Strategic Support									
Head of Internal Audit Opinion 2020/21						3	SIAS	3	Complete
Audit Committee						6	SIAS	1.5	Through Year

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AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Client Meetings						6	SIAS	1.5	Through Year
Progress Monitoring						10	SIAS	2.5	Through Year
SIAS Development						5	SIAS	5	Through Year
2022/23 Audit Planning						10	SIAS	0	Through Year
Completion of outstanding 2020/21 projects						2.5	SIAS	1	In Progress
Total - North Herts D.C.		**0**	**0**	**0**	**0**	**270**		**58.5**	

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
1.	Financial Resilience of Suppliers (January 2021)	a) The Guide to Contract and Relationship Management should be updated, recording the next review date. b) Regular review meetings with suppliers should be conducted to assess the contractor compliance with contract and delivery standards and to identify and rectify any performance issues. We recommend that annual and at least quarterly review meetings to be conducted for non-core and core contracts respectively in line with best practice. Contract Managers should ensure that discussions and agreed actions are recorded and stored electronically.	We are currently updating the Guide to Contract and Relationship Management, including the removal of the use of terminology 'core and non-core contracts'. The core terminology will be applied to contracts with an annual spend of £50k and above, Non-core contracts will be changed to applying to contracts where the spend is under £50k per annum. We are content with the frequency recommendations. The recommendation for quarterly review meetings will be applicable to the contracts that meet the financial threshold set out above and the annual review meetings for those that do not.	a) Procurement Officer b) Contract Managers	a) September 2020 b) October 2020	**February 2021:** The regular meetings are not required for all contracts and the updated guidance will reflect this to ensure that the reviews are appropriate in the circumstances. It is accepted that there will need to be a periodic review for all core contracts over £50k, which again will be reflected in the updated guidance. The risk and insurance checker has been updated, which assists in determining the frequency of contract reviews. Current estimate is that the work to fully implement the recommendation will be completed in March 2021. **June 2021:** We have updated the Contract Management	**Implemented**

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
						Guide (in consultation with CPG). It has been uploaded onto the Intranet for Officers to use. Additionally, the risk and insurance checker has been updated which will determine the frequency of contract reviews and meetings.	
2.	Financial Resilience of Suppliers (January 2021)	a) All core contracts should have a business continuity plan in place to ensure continued delivery of statutory services. The plan should include key information around actions staff should take in case of a contractor failure. b) Contract Managers should ensure that insurance cover is maintained throughout the term of the contract. Annual updated certificates should be requested from the supplier and the Contract	We are currently updating the Guide to Contract and Relationship Management, including the removal of the use of terminology 'core and non-core contracts'. The requirements currently assigned to 'core' contracts, will now apply to any contracts where the spend per annum is over £50k.	a) Contract Managers b) Contract Managers & Procurement Officer	a) September 2020 b) Subject to spot checks October 2020	**February 2021:** We intend to tackle (a) the same way in which we have looked to tackle the "Contract Monitoring (Strategy and Assurance Frameworks)" recommendation, by updating the risk and insurance checker tool, which once amended will determine whether a business continuity plan is required and to what extent it needs to go. We also noted that the guide should be updated to explain that	**Implemented**

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
		Managers should provide a confirmation to the Procurement Team regarding the obtained insurance certificates on an annual basis.				sometimes a business continuity plan does not need to be complex and in some circumstances it may be appropriate for there to be just a few explanatory lines setting out the fact there will not in fact be an impact on the service at all and therefore further planning is not required. In relation to (b), as InTend allows Contract Managers to upload insurance certificates on to the system, we have now built a procedure in place ensuring Contract Managers upload the certificates and utilise InTend to diarise annual reminders. Additionally, in order to ensure compliance with obtaining and uploading the insurance certificate, we have worked this into the form which is entitled "Contract details to be included on the	

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No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
						contract register" which is saved on the Intranet. Contract Managers have to confirm that they have obtained and uploaded this and this step ensures compliance. Part (b) of this recommendation has been completed. Current estimate is that the work to fully implement the recommendation will be completed by March 2021. **June 2021:** The risk and insurance checker tool has been amended as above. When it is completed by an officer/contract manager, it will determine whether a business continuity plan is required and the extent to which it needs to go. This amended checker is on the intranet and has been	

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
						introduced to the contract managers. We refer contract managers to the risk and insurance checker at the outset of every procurement when they complete the procurement instruction form. This has been completed. When a contract manager has completed a procurement, they must complete a form in order to complete everything and this form now requires contract managers to declare that they have obtained and uploaded the necessary insurance certificates. The contract managers have also been trained on uploading documents to InTend and have guidance on the Intranet to follow. This is an additional measure	

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
						which checks with contract managers that they have done the necessary action and it is on a form that they must complete at the end of every procurement.	

APPENDIX C – 2021/22 AUDIT PLAN START DATES AGREED WITH MANAGEMENT

Quarter 1	Quarter 2	Quarter 3	Quarter 4
Discretionary Housing Payments **In Fieldwork**	Resilience in Revenues and Benefits **Allocated**	Grant Administration	Climate Emergency
Income Generation (Selling our Services) **In Fieldwork**	Freedom of Information and Subject Access Requests **Allocated**	Integra Automation	Workman's Hall and King George V Playing Fields **Allocated**
Customer Services Strategy **Draft Report Issued**	COVID-19 Response **Allocated**	Non-UK Purchases	COVID-19 Recovery
Cloud Computing **In Fieldwork**	Development Management F/U **Allocated**	Investments	Anti-Social Behaviour
COVID-19 Recovery Planning **In Fieldwork**	Breathing Space (Debt Recovery) **Allocated**	Data Breaches **Allocated**	Partnerships
Leisure Contract **In Fieldwork**	LA Track and Trace Grant (Added) **In Planning**	Shaping Our Future	Financial Resilience of Suppliers F/U (Moved from Q2)
Review of the Finance, Audit and Risk Committee **Quality Review**	Energy Improvement in Park Homes Grant (Added) **Allocated**		
2020/21 Projects Requiring Completion			
		AUDITS TO BE CONFIRMED FOR QUARTER 3 AND 4 IN SEPTEMBER 2021	

APPENDIX D – ASSURANCE AND FINDINGS DEFINITIONS 2021/22

Assurance Level	Definition
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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	🟢	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.