



INTERNAL AUDIT PROGRESS REPORT

NORTH HERTS COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE
7 DECEMBER 2022

RECOMMENDATIONS

- Note the SIAS Progress Report for the period to 18 November 2022
- Approve the plan amendments to the 2022/23 Annual Internal Audit Plan

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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 Internal Audit Plan for 2022/23 as at 18 November 2022.
 - b) In-Year Audit Plan review and proposed Plan amendments.
 - c) An update on performance indicators as at 18 November 2022.

Background

- 1.2 The 2022/23 Internal Audit Plan was approved by the Finance, Audit and Risk Committee (the FAR Committee) on 16 March 2022.
- 1.3 The Committee receives periodic updates of progress against the Annual Internal Audit Plan. This is the third report giving an update on the delivery of the 2022/23 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 Internal Audit Plan and Key Audit Findings

- 2.1 As at 18 November 2022, 40% of the 2022/23 Internal Audit Plan days had been delivered.
- 2.2 There have been three final audit reports issued since the September 2022 Audit Committee. One was a carry forward audit from the 2021/22 Internal Audit Plan and two are 2022/23 internal audits:

Audit Title	Assurance Opinion	Recommendations
Green Homes Grant (Park Homes) – LAD1B	Unqualified	Advisory notes
Health and Safety of Lone Workers - EH and Housing (2021/22)	Reasonable	Two Medium priority

Careline Operations	Reasonable	One High priority
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2.3 The status of the remaining 2021/22 audit carried forward for completion as part of the 2022/23 Internal Audit Plan is as follows:

Audit Title	Status
Future Ways of Working	Fieldwork commenced in w/c 24 October 2022 as rescheduled with Council officers.

2.4 SIAS aim to deliver all audits prioritised as ‘High’ in the 2022/23 Internal Audit Plan and will deliver at least eight projects prioritised as ‘Medium’. In addition, all IT audits will be completed. The outcomes of these projects will support the Chief Audit Executive in forming their overall opinion.

2.5 The medium priority projects that will be undertaken (see Appendix B) were approved by the FAR Committee in the meeting prior to the quarter commencing, i.e., Q1 and Q2 were approved in March 2022, with the June FAR Committee approving four further audits for completion in Q3 and Q4.

High Priority Recommendations

2.6 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.

2.7 There are no outstanding high priority recommendations, although Members will be aware that three new high priority recommendations were made in the ‘Resilience in the Revenues and Benefits Systems and Technical Team’ internal audit report issued in April 2022. These have implementation dates in March 2023.

2.8 One new high priority recommendation has been raised in ‘Careline Operations’ internal audit report issued in November 2022. This relates to not complying with governance arrangements as per contract requirements. This has an implementation date of December 2022.

Proposed Amendments

2.9 The following Plan amendments have been agreed with management within this reporting period:

Audit	Previous Billable Days	Revised Billable Days
Green Homes Grant (Park Homes) – LAD1B (new grants audit request)	0	2
Contingency	9	7

Performance Management: Reporting of Audit Plan Delivery Progress

2.10 To help the Committee assess the current progress of the projects in the Audit Plan, we have provided an overall progress update of delivery against planned commencement dates at Appendix B. 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	Estimated profile to 18 November 2022
Draft / Final Report Issued	8	30%	(11/27)
In Fieldwork / Quality Review	6	22%	(9/27)
Terms of Reference Issued / In Planning	6	22%	(4/27)
Not Yet Started / Allocated	7	26%	(4/27)

2.11 Annual performance indicators and associated targets were approved by the SIAS Board in March 2022. As at 18 November 2022, actual performance for North Herts Council against the targets that can be monitored in year is shown in the table below:

Performance Indicator	Annual Target	Profiled Target to 18 November 2022	Actual to 18 November 2022
1. Annual Internal Audit Plan Delivery – the percentage of the Annual Internal Audit Plan delivered (excludes contingency)	95%	50% (131.5 / 263 days)	40% (105.5 / 263 days)
2. Project Delivery – the number of projects delivered to draft report stage against projects in the approved Annual Internal Audit Plan	95%	41% (11 / 27 projects)	30% (8 / 27 projects)

3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	67% for those returned (3 returned from 8 issued)
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2.12 In respect of delivery of Planned Days, performance is behind the profiled target as it was anticipated that:

- a) Fieldwork would have been further advanced or completed on the Revenues Discounts and Exemptions, Leisure Services, Business Continuity and Future Ways of Working audits, as well as the MSU Ways of Working consultancy work. All were originally scheduled for commencement in quarter two at the start of the year, however all work only commenced in quarter three.
- b) Fieldwork would have completed on the Waste Contract audit being conducted in conjunction with East Herts Council, however a long-term sickness absence has delayed this audit.

2.12 In terms of delivery of Planned Projects, it was further anticipated that at least three of the five audits listed at paragraph 2.11 would be at draft report stage.

2.13 The client satisfaction survey returned since the September Audit Committee, scored in the highest 'very good / excellent' overall category.

2.14 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2022/23 Chief Audit Executive's Annual Report:

- **4. Internal Audit Annual Plan Report** – approved by the March Audit Committee or the first meeting of the financial year should a March committee not meet.
- **5. Chief Audit Executive's Annual Assurance Opinion and Report** – presented at the first Audit Committee meeting of the financial year.

Service Update and Current Plan Delivery Position

2.15 As reported above, SIAS are currently behind profile for both billable days and projects delivered to draft report status. In respect of the above, 2022/23 has been a significantly challenging year for SIAS in relation to recruitment and retention, with as many as 6 FTE vacancies (36% of the establishment) during earlier periods of the financial year. Whilst this has now reduced to 4.5 FTE (25% of the establishment), the specialist nature of Internal Audit means that SIAS are competing with the private sector to recruit to our higher-level roles, and this has proved challenging given the pay constraints Local Authorities operate under. In respect of the remaining vacancies, a further recruitment campaign is currently in progress. The internal audit market remains challenging across all sectors, and SIAS's experience has been replicated elsewhere. Our recruitment of trainee auditors has been successful, however

our 'grow your own' strategy is a medium to long term solution and does not resolve immediate capacity challenges.

- 2.16 As Committee Members will be aware, SIAS operates as a partnership. The current resource gap within the partnership is 200 days. Whilst this would normally be allocated to SIAS's external delivery partner (currently BDO), they have now reached their delivery and resourcing capacity for the financial year. SIAS have therefore recently started a procurement process to commission an additional external delivery partner for quarter four to assist in completion of the remaining projects.
- 2.17 It is also important to note that the delivery profile is not straight line, with the profile often impacted not only by delivery capacity, but also by the required timing of some audits, or where council departments at both North Herts and / or other SIAS partners have requested later start dates for audits. This is outside the control of SIAS. When considering the current delivery position, it is important to note that any projects that have had specific key deadlines, such as grant certifications, advice, or support for projects, have been prioritised and agreed deadlines met.
- 2.18 Based on current resource availability (including our external partner) and subject to the successful procurement of an additional partner, we would be able to provide assurance to the Committee that all audits within the 2022/23 have been allocated for completion before the end of the financial year. However, should the above procurement process be unsuccessful, additional vacancies occur, SIAS experience significant staff sickness, or there are client engagement issues in relation to the timing (or supporting the delivery) of audits, there would be a risk to the overall delivery of the 2022/23 audit plan.
- 2.19 The above position is subject to continual monitoring, and we are currently satisfied that all available mitigating actions have been taken forward to manage the above risks, and that any uncompleted projects could be concluded during April 2023 to support the Annual Assurance Opinion if required. However, regular updates will be provided to both the Committee and the Council's Section 151 Officer as the remainder of the financial year progresses.

APPENDIX A – PROGRESS AGAINST THE 2022/23 INTERNAL AUDIT PLAN AS AT 18 NOVEMBER 2022

2022/23 SIAS Internal Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
High Priority Audits (81 days)									
Climate Emergency						12	BDO	2	ToR Issued
Waste Contract						6	SIAS	4.5	In Fieldwork
Careline Operations	Reasonable	0	1	0	0	12	BDO	12	Final Report Issued
Procurement						12	SIAS	0	Allocated
Risk and Performance Management						12	Other external provider	0	Allocated
Business Continuity Planning						15	BDO	3.5	In Fieldwork
Centros Financial System						12	BDO	1	In Planning
Medium Priority Audits (72 days) – 8 audits nominated to date; minimum 8 to be delivered									
Handling Difficult Customers Policy	Substantial	0	0	0	0	10	SIAS	10	Final Report Issued
Compliance Contract						11	BDO	10.5	Draft Report Issued
Revenues Discounts and Exemptions						8	SIAS	6.5	In Fieldwork
Leisure Services						11	BDO	2	ToR Issued
Project Management						8	SIAS	0	Allocated
Temporary Accommodation						8	Other external provider	0	Allocated
Safeguarding						8	SIAS	0	Allocated
Parking Strategy						8	SIAS	0	Allocated
IT Audits (35 days)									
Cyber Risk						15	BDO	3	In Fieldwork

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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				
Phishing						10	BDO	9.5	Draft Report Issued
IT Hardware						10	BDO	2	ToR Issued
Consultancy and Advisory (15 days)									
Strategic Planning (Local Plan)						10	Other external provider	0	Allocated
MSU Impact of Ways of Working						5	BDO	3	In Fieldwork
Shared Learning and Joint Reviews (4 days)									
Shared Learning						2	SIAS	1	Ongoing through year
Joint Reviews						2	BDO	1	In Fieldwork
Grant Claims / Charity Certification (7 days)									
King George V Playing Fields						1	SIAS	0	In Planning
Workman's Hall						1	SIAS	0	In Planning
COMF Response	Unqualified	0	0	0	0	1	SIAS	1	Final Report Issued
Test and Trace Payment Support	Unqualified	0	0	0	0	2	SIAS	2	Final Report Issued
Green Homes Grant (Park Homes) – LAD1B	Unqualified	0	0	0	0	2	SIAS	2	Final Report Issued
Contingency (7 days)									
Contingency						7			
Client Management - Strategic Support (38 days)									
CAE Internal Audit Opinion 2021/22						3	SIAS	3	Complete
Audit Committee						6	SIAS	4	Through Year
Client Meetings						8	SIAS	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				
Progress Monitoring						8	SIAS	5	Through Year
SIAS Development						5	SIAS	5	Through Year
2023/24 Audit Planning						8	SIAS	0.5	Q3/Q4
2021/22 Carry Forward - (11 days)									
Completion of outstanding 2021/22 projects						2		2	Complete
Future Ways of Working						9	BDO	4.5	In Fieldwork
Grants Administration	Reasonable	0	0	0	0				Final Report Issued
Shaping our Future	N/A - Consultancy	0	0	2	1				Final Report Issued
Financial Resilience of Suppliers Follow-up	Substantial	0	0	0	0				Final Report Issued
HMRC Tax Guidance	N/A - Consultancy	0	0	0	0				Final Report Issued
Non-UK Purchases	Substantial	0	0	0	0				Final Report Issued
Resilience in the Revenues and Benefits Systems and Technical Team	Limited	0	3	0	0				Final Report Issued
Community Capital Grants Applications	Reasonable	0	0	1	1				Final Report Issued
Integra Automation	N/A - Consultancy	0	0	0	0				Final Report Issued
Health and Safety of Lone Workers - EH and Housing	Reasonable	0	0	2	0				Final Report Issued
Total - North Herts D.C.		0	4	5	2	270		105.5	

APPENDIX A – PROGRESS AGAINST THE 2022/23 INTERNAL AUDIT PLAN AS AT 18 NOVEMBER 2022

Key / Notes

Not Assessed = No assurance opinion provide as the project was either consultancy based or validation for compliance

C = Critical Priority, H = High Priority, M = Medium Priority, L = Low Priority

BDO = SIAS Audit Partner

N/a = Not Applicable

Audit Plan Days are a guide only and are not formally allocated. This is as per the approved 2022/23 Internal Audit Plan.

APPENDIX B – 2022/23 INTERNAL AUDIT PLAN START DATES AGREED WITH MANAGEMENT

	<u>Quarter 1</u>	<u>Quarter 2</u>	<u>Quarter 3</u>	<u>Quarter 4</u>
H	Careline Operations (Final Report Issued)	Waste Contract (In Fieldwork)	Climate Emergency (ToR Issued)	Procurement (Allocated)
		Business Continuity Planning (In Fieldwork)	Risk and Performance Management (Allocated)	Centros Financial System (In Planning)
M	A minimum of 8 medium priority audits from the following (please see paragraphs 2.4 and 2.5):			
	Safeguarding* (Allocated)	Community Lottery	Prudential Code Compliance	Apprenticeship Levy
	Annual Governance Statement	Green Space Strategy	Licensing Enforcement	Project Management* (Allocated)
	Compliance Contract (Draft Report Issued)	Leisure Services (ToR Issued)	Temporary Accommodation* (Allocated)	Payroll – Contract Management
	Handling Difficult Customers Policy (Final Report Issued)	Revenues Discounts / Exemptions (In Fieldwork)	Covid-19 Recovery	HTH Museum and Operations
			Parking Strategy* (Allocated)	
IT		Phishing (Draft Report Issued)	Cyber Risk (ToR Issued)	IT Hardware (ToR Issued)
C		Impact of Ways of Working for MSU (In Fieldwork)	Strategic Planning (Local Plan) (Allocated)	
G/C		COMF Response (Final Report Issued)	Green Homes Grant (Park Homes) – LAD1B (Final Report Issued)	King George V Playing Fields (In Planning)
		Test and Trace Payment Support (Final Report Issued)		Workman’s Hall (In Planning)
O	2021/22 Carry Forward – Future Ways of Working (In Fieldwork)			

APPENDIX B – 2022/23 INTERNAL AUDIT PLAN START DATES AGREED WITH MANAGEMENT

O	2021/22 Carry Forward – Health and Safety of Lone Workers - EH and Housing (Final Report Issued)			
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Key:

H – High Priority: 100% of audits will be delivered

M – Medium Priority: Eight of these audits will be delivered, FAR Committee to approve which audits will be delivered from this list.

IT – IT Audits: 100% of IT audits will be delivered

C – Consultancy: Assignments will be delivered as part of the audit plan

G/C – Grant or charity certification to be completed as part of the audit plan

O - Other

* - Approved at June FAR Committee

Those highlighted in light blue have not been approved for delivery.

APPENDIX C – ASSURANCE AND FINDINGS DEFINITIONS 2022/23

Audit Opinions		
	Assurance Level	Definition
Assurance Opinions	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.
	Not Assessed	This opinion is used in relation to consultancy or embedded assurance activities, where the nature of the work is to provide support and advice to management and is not of a sufficient depth to provide an opinion on the adequacy of governance or internal control arrangements. Recommendations will however be made where required to support system or process improvements.
Grant Certification	Unqualified	No material matters have been identified in relation the eligibility, accounting and expenditure associated with the funding received that would cause SIAS to believe that the related funding conditions have not been met.
	Qualified	Except for the matters identified within the audit report, the eligibility, accounting and expenditure associated with the funding received meets the requirements of the funding conditions.
	Disclaimer Opinion	Based on the limitations indicated within the report, SIAS are unable to provide an opinion in relation to the Council's compliance with the eligibility, accounting and expenditure requirements contained within the funding conditions.
	Adverse Opinion	Based on the significance of the matters included within the report, the Council have not complied with the funding conditions associated with the funding received.
Finding Priority Levels		
	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.