East Herts Council
Audit & Governance Committee

26 September 2023
Shared Internal Audit Service –
Progress Report

Recommendations

Members are recommended to:
a) Note the Internal Audit Progress Report
b) Note the Status of Critical and High Priority
Recommendations

Contents

1 Introduction and Background

<u>Purpose of Report</u>

1.1   To provide Members with:
   a) The progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's 2023/24 Internal Audit Plan to 8 September 2023.
   b) The findings for the period 1 April 2023 to 8 September 2023.
   c) Details of any changes required to the approved Internal Audit Plan.
   d) The implementation status of previously agreed audit recommendations.
   e) An update on performance management information to 8 September 2023.

<u>Background</u>

1.2   Internal Audit's Annual Plan for 2023/24 was approved by the Audit & Governance Committee at its meeting on 28 March 2023. The Audit & Governance Committee receive periodic updates against the Internal Audit Plan. This is the first update report for 2023/24.

1.3   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 function is fulfilling its statutory obligations. It is considered good practice that progress reports also include details of changes to the agreed Annual Internal Audit Plan.

2 Audit Plan Update

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

2.1   As of 8 September 2023, 30% of the 2023/24 Internal Audit Plan days have been delivered (the calculation excludes contingency days that have not yet been allocated).

2.2   The following final reports have been issued since 1 April 2023:

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Next Steps Accommodation Programme (grant certification)	May 2023	Unqualified	None
Supply Chain Interruption 2022/23	Jun 2023	Substantial	Two Low Priority
Customer Services Cash Handling	Sep 2023	Reasonable	Four Medium Priority

See definitions for the above assurance levels and recommendation priorities at Appendix D.

2.3   The table below summarises the position regarding delivery of the 2023/24 approved projects to 8 September 2023. Appendix A provides a status update on each individual project within the 2023/24 Internal Audit Plan.

Status	No. of Audits at this Stage	% of Total Audits
Final Report Issued	3	11%
Draft Report Issued	2	8%
In Fieldwork/Quality Review	4	15%
In Planning/Terms of Reference Issued	6	23%
Allocated	1	4%
Not Yet Allocated	10	39%
Cancelled/Deferred	0	0%
Total	**26**	**100%**

Internal Audit Plan Changes

2.4   There has not been any Internal Audit Plan changes during the year to date.

Critical and High Priority Recommendations

2.5   Members will be aware that a Final Audit Report is issued when it has been agreed ("signed off") by management; this includes an agreement to implement the recommendations that have been made.

2.6   The schedule attached at Appendix B details any outstanding Critical and High priority audit recommendations. No new recommendations have been added to the schedule.

Performance Management

2.7   The 2023/24 annual performance indicators were approved at the SIAS Board meeting in March 2023.

2.8   The actual performance for East Herts Council against the targets that can be monitored in year is set out in the table overleaf:

Performance Indicator	Performance Target for 31 March 2024	Profiled Performance 8 Sept 2023	Actual Performance 8 Sept 2023	Notes
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excludes unused contingency)	95%	34%	30%	70.5 days delivered out of the current 238 days planned
2. Planned Projects * – percentage of actual completed projects to draft report stage against planned completed projects by 31st March 2024	90%	27%	19%	5 projects to draft or final report from the 26 planned
3. Planned Projects – percentage of actual completed projects to final report stage against planned completed projects by the production of the Annual Report	100%	N/a	11%	New Indicator – first measurement will be May 2024 (Currently 3/26 delivered to final report)
4. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100%	Based on the results of the 1 completed questionnaire received (from the 2 issued)
5. Number of High and Critical Priority Audit Recommendations agreed as a percentage	95%	0%	0%	No High Priority recommendations made and agreed

* Based on Audit Plan 'deliverables' at draft, final and audit closed stage and items carried forward from 2022/23 that were not at draft report stage by 31 March 2023.

2.9   In addition, the performance targets listed below are annual in nature. Members will be updated on the performance against these targets within a separate Annual Report:

- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit & Governance Committee. If there is no March meeting, then the Plan should be prepared for the first meeting of the financial year. This indicator was achieved for 2023/24 as the audit plan for the financial year 2023/24 was presented to the Committee in March 2023.

- **7. Chief Audit Executive's Annual Report** – presented at the May meeting of the Audit & Governance Committee. This indicator was achieved for 2023/24 as the Client Audit Manager's Annual Report (for 2022/23) was presented to the May 2023 meeting of this committee.

Summary of Performance Against KPI's

2.10   In respect of current performance against key performance indicators, SIAS are broadly on track with profiled targets for both delivery of planned days and projects. As the Committee will be aware, during 2022/23 SIAS had several vacant posts, with these reaching six vacancies at the end of the financial year. This resulted in SIAS using additional resources from external partners to deliver the planned work for quarter four and allowed us to complete the programmes of work for all SIAS Partners.

2.11   We are pleased to report that significant progress has been made in filling the vacancies. A new Assistant Client Audit Manager started in June and three Trainee Auditors started in August. A new Client Audit Manager has also started this month. Combined with the ability to use our external co-sourced partner, we are currently satisfied that sufficient internal resources are available to deliver the East Herts Council Internal Audit Plan for 2023/24.

APPENDIX A - PROGRESS AGAINST THE 2023/24 INTERNAL AUDIT PLAN

2023/24 Internal Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS *				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Key Financial Systems – 49 days									
Business Rates (shared with SBC)							No		Not Yet Allocated
Council Tax (shared with SBC)							No		Not Yet Allocated
Housing Benefits (shared with SBC)							No		Not Yet Allocated
Creditors							No		Not Yet Allocated
Debtors						49	Yes	1.0	ToR Issued
Asset Management							No		Not Yet Allocated
Treasury Management							No		Not Yet Allocated
Main Accounting							No		Not Yet Allocated
Payroll							No		Not Yet Allocated
Operational Audits – 95 days									
S106 Agreements						12	Yes	7.5	In Fieldwork
Land Charges						10	Yes	5.0	In Fieldwork
Community Grants & Funding						12	Yes	1.5	ToR Issued
Houses in Multiple Occupation						10	Yes	9.5	Draft Report Issued
Environmental Health Case Management Record Keeping						15	Yes	0.5	In Planning
Customer Services Cash Handling	Reasonable	0	0	4	0	8	Yes	8.0	Final Report Issued
Court Cost Tracking						10	Yes	1.5	In Planning
Residents Parking Permits						8	Yes	1.5	ToR Issued
Planning & Development Fees						10	Yes	2.5	In Fieldwork
On Demand Grant Audits – 7 days									
Next Steps Accommodation Programme	Unqualified	N/A				1	Yes	1	Final Report Issued
Grant Audit Contingency						6	N/A	0	Through Year

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS *				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Corporate Services/Themes – 28 days									
Tendering Process						12	Yes	7	In Fieldwork
Risk Management (Assurance Mapping Refresh)						2	No	0	Not Yet Allocated
Corporate Governance (Assurance Mapping Refresh)						2	No	0	Not Yet Allocated
Transformation (continuous assurance)						12	No	0	Not Yet Allocated
IT Audits – 12 days									
Mobile Phone Security (shared with SBC)						6	Yes	0	Allocated
IT Project Management (shared with SBC)						6	Yes	1	ToR Issued
Completion of 2022/23 Projects – 6 days									
Supply Chain Interruption	Substantial	0	0	0	2	6	Yes	4	Final Report Issued
Elections Payroll							Yes		Draft Report Issued
Contingency – 6 days									
Contingency						6	N/A	0	Through Year
Strategic Support – 47 days									
Head of Assurance Opinion						3	Yes	3	Complete
Audit Committee & Recommendation Follow Up						10	Yes	3	Through Year
Client Engagement & Adhoc Advice						10	Yes	3	Through Year
2024/25 Audit Planning						5	Yes	0	Allocated
Service Development						5	Yes	5	Through Year
Progress Monitoring						12	Yes	5	Through Year
SAFS Related Matters						2	Yes	0	Through Year
SBC TOTAL		**0**	**0**	**4**	**2**	**250**		**70.5**	

* C = Critical Priority, H = High Priority, M = Medium Priority, LA = Low/Advisory Priority

The following appendix provides Audit & Governance Committee Members with a summary of the most recent update provided by management in respect of outstanding high priority recommendations.

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Sept 2023)
1.	**Payment Card Data Security Standard (2020/21).**	<u>Recommendation:</u> <u>PCI-DSS Self-Assessment & Compliance Structure.</u> The Council has not completed a SAQ and does not have a formal PCI-DSS compliance strategy/program in place to meet required data security standards. As the option for non-compliance was taken several years ago and since that point there have been multiple personnel changes, the Council should re-assess the level of risk and decide if the non-compliant route is still the most preferred option. A cross-Council PCI-DSS working group should be established to focus on assessing the level of risk presented by sustained non-compliance with the PCI-DSS. This group's primary objective should be to determine whether to accept the level of risk and continue to pay the monthly penalty imposed by WorldPay or agree roles and responsibilities to engineer and maintain compliance with the published standards. Should the decision be made to focus on compliance, the Councils are recommended to consult the best practice guidance produced by the PCI DSS Council in January 2019. <u>Agreed Management Action(s):</u> The s.151 officer has advised that the level of risk and the monthly fines for non-compliance does not represent proper management of financial affairs. In addition, the expansion of the number of services to be put on the web, which require the ability to have payment facilities, means that the Council must be PCIDSS compliant in order to proceed. Having previous experience of ICON it is not possible to achieve PCIDSS compliance with this software and suitable replacement software has been identified. This will be implemented jointly with Stevenage BC. A revised Information Security Policy has been developed and will be distributed to staff annually as part of the compliance process. This emphasises card security measures in the short term.	**Responsible Officer:** Head of Strategic Finance & Property. **Revised Due Date:** 31 March 2024.	<u>**September 2023.**</u> Ultimately dependent on the replacement of ICON, scheduled for implementation 1 April 2024.	Partially implemented.

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Sept 2023)
2.	**Payment Card Data Security Standard (2020/21).**	<u>Recommendation:</u> <u>Roles and Responsibilities.</u> As a subsequent output from the formation of the cross-Council PCI-DSS working group, there should be named individuals assigned to steering the Councils compliance journey. Traditionally, the ownership of the compliance process may be the Head of Finance, as they generally occupy the position of signing off the annual Attestation of Compliance (AoC). But it must also be noted that much of the compliance structure content relates to technical configuration, so the Council should designate roles based on this dual ownership. Whilst Finance owns the overall compliance objective, the IT work stream owns the infrastructure that the payment systems sit on. Both departments should have an equal vested interest in compliance. <u>Agreed Management Action(s):</u> The above will lead the new system implementation and compliance as he has done this at a previous authority. To achieve compliance the new system will not permit card number entry by staff. Instead, customers choosing to phone up to pay will be handed off to a secure IVR system and will need to enter card details on their phone keypad. Subsequent payments, providing it is for a service with an account number for the customer, e.g. Council Tax, then the system uses a secure token that shows the last 4 digits of the card number and the expiry date. The customer is asked to confirm the expiry date and payment can be taken from that card with no need for card input unless the card is replaced/renewed. - About 60% of PCIDSS compliance relates to firewalls, encryption and network security and requires best practice testing and maintenance which will be usefully checked for PCIDSS compliance as well as the standard annual cyber security checks.	**Responsible Officer:** Head of Strategic Finance & Property. **Revised Due Date:** 31 March 2024.	<u>**January 2023.**</u> Ultimately dependent on the replacement of ICON, scheduled for 1 April 2024.	Partially implemented.

APPENDIX C – INTERNAL AUDIT PLAN 2023/24 – PLANNED AUDIT START DATES

Apr	May	Jun	July	Aug	Sept
Supply Chain Interruption 2022/23 (Final Report)	Customer Services Cash Handling (Final Report)	Land Charges (In Fieldwork) c/f from April	Tender Process (In Fieldwork) c/f from May	Houses in Multiple Occupation (Draft Report)	Debtors (ToR Issued)
Elections Payroll 2022/23 (Draft Report)	Next Steps Accommodation Programme (Final Report)		S106 Agreements (In Fieldwork) c/f from May	Court Cost Tracking (In Planning)	Planning & Development Fees (In Fieldwork)
				Environmental Health Case Management - Record Keeping (In Planning) c/f from June	Residents Parking Permits (ToR issued) b/f from Oct
				Community Grants & Funding (ToR Issued) c/f from July	IT Project Management (ToR Issued)

Oct	Nov	Dec	Jan	Feb	Mar
Creditors	Mobile Device Security (Allocated)	Business Rates	Council Tax	Treasury Management Assurance Mapping Refresh	
	Housing Benefits	Payroll Assurance Mapping Refresh	Asset Management Assurance Mapping Refresh	Risk Management Assurance Mapping Refresh	
			Main Accounting Assurance Mapping Refresh	Corporate Governance Assurance Mapping Refresh	

APPENDIX D – ASSURANCE/PRIORITY LEVELS

Audit Opinions	
Assurance Level	**Definition**
Assurance Reviews	
Substantial	A sound system of governance, risk management and control exist, 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 / Funding Certification Reviews	
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.

Recommendation 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.