

Dacorum Borough Council

Final Internal Audit Report

Performance Management

June 2014

This report has been prepared on the basis of the limitations set out on page 9.

CONFIDENTIAL

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Key Dates:

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Date of draft report: May 2014
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Date of final report: June 2014

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1. Executive Summary

1.1. Background

As part of the Internal Audit programme for 2014/15, we have undertaken an audit of the Council’s systems of internal control in respect of Performance Management.

1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Performance Management, and provide guidance on how to improve controls going forward if required.

In summary, the scope covered the following areas: Reporting on Performance; Governance; Performance Standards; and Performance Review.

1.3. Summary Assessment

Our audit of DBC’s internal controls operating over Performance Management found that there is a sound system of internal control designed to achieve the system objectives. However, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Full	Substantial

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Performance Management is shown in Section 3.

1.4. Key Findings

We have raised two priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- All Performance Indicators should be completed by the designated officer and should then be signed off as being complete and accurate by the Approving officer before being presented to Committee, with any appropriate comments documented. (Priority 2).
- Performance Indicators included in the Council’s Performance Management framework should be reviewed on an annual basis. Any changes in the target and the basis of calculating the PI should be recorded on the Data Quality and Target Control sheet. (Priority 2).

Full details of the audit findings and recommendations are shown in Section 4 of the report

1.5. **Management Response**

We have received the management responses and have included them in our Final report.

1.6. **Acknowledgement**

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of Assignment

2.1. Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Performance Management, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non- statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner.

2.3. Areas Covered









The audit was carried out to evaluate and test controls over the following areas:

- *Reporting on Performance*
The Council has in place procedures to ensure that management reports and performance updates are produced in a timely and accurate manner. Performance reports are submitted to the Overview and Scrutiny Committees and Cabinet on a regular basis.
- *Governance*
The Council has in place a clearly defined Performance Management framework, which is incorporated into the Council Performance Management system. There is also clearly documented guidance in place to enable services to develop action plans to meet their respective performance targets and reporting requirements are clearly defined. The Performance framework is regularly reviewed and the Performance Review Group reviews performance targets.
- *Performance Standards*
Performance targets are set for individual Managers / services and are linked to the Corporate Plan. There is a Strategic plan in place and this is reviewed on a regular basis. The Strategic plan includes a set of Performance Indicators, which are linked to the corporate objectives. Each directorate / service has an action plan in place that details how they will meet their targets.
- *Performance Review*
Performance reports are prepared for each Directorate and on a corporate basis each month. Performance is reported on a quarterly basis, and also is reported to the appropriate forum including both CMT and DMT as appropriate.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Reporting on Performance			Recommendation 1
Governance			Recommendation 2
Performance Standards			
Performance Review			

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

4. Observations and Recommendations

Recommendation 1: Approval of KPI's (Priority 2)

Recommendation

All Performance Indicators should be completed by the designated officer and should then be signed off as being complete and accurate by the Approving officer before being presented to Committee, with any appropriate comments documented.

Observation

The Corvu Updater is the primary responsible officer for ensuring that the detail regarding their specific Performance indicator(s) is accurately recorded on the Council's Performance management system, Corvu. The information is then reviewed by the Corvu Approver, who is designated as the accountable officer. The approver signs to confirm that the details recorded for the PI are a complete and accurate record.

We reviewed a sample of monthly and quarterly performance reports that are presented to both the Overview and Scrutiny committee and Cabinet. It was confirmed that in several instances during the financial year 2013/14, the reports included Performance Indicators where the data for the period had not been approved by the designated 'Approver' prior to the report going to Committee. In particular audit reviewed the quarter 4 performance report and it was noted that 30 indicators out of 153 were not approved.

It was further noted on examination of the Yearly Performance Report submitted to Cabinet on 28th May 2013, that in two instances out of the 13 red indicators on the report, that there was no evidence to confirm that the indicators had been signed off by the Approver.

Where data is not independently verified and approved prior to reporting to Senior Management and members, there is a risk that erroneous data may be reported, giving an inaccurate picture of service area performance, which may lead to inappropriate decisions being made.

Responsibility

Shane Flynn – Assistant Director (Performance and Projects)

Management response / deadline

Agreed. There is a clear process for updating and approving performance information each month. All approvers will be reminded of their obligations within this system. 30/06/14

Recommendation 2: Performance Targets (Priority 2)**Recommendation**

Performance Indicators included in the Council's Performance Management framework should be reviewed on an annual basis. Any changes in the target and the basis of calculating the PI should be recorded on the Data Quality and Target Control sheet.

Observation

In order to establish a consistent and accurate means of monitoring performance across the Council, each Performance Indicator is reviewed on an annual basis. The target and rationale for the indicator together with the methodology to be adopted in calculating the indicator is recorded on the Data Quality and Target Control sheet.

Audit selected a sample of 10 Performance Indicators to test from the Corporate Plan. It was found that in five instances there was no reason given as to why the target was set or why it had not changed from the previous year. It was also noted that in six instances there was insufficient detail recorded as to how the indicator was to be calculated.

Where targets are not justified and the means of calculating is not specified, there is a risk that targets will be inappropriate and inaccurately calculated, which may lead to incorrect decisions being made. Unachievable targets may affect the morale of staff, while easily achievable targets will not encourage performance to improve and go beyond the target.

Responsibility

Shane Flynn – Assistant Director (Performance and Projects)





Management response / deadline

Agreed. There is a clear process for updating and approving targets within the data quality process. Procedures were further strengthened in preparation for 2014/15 to require Assistant Director sign-off of targets for the coming year. This should prevent targets being set without appropriate justification.

Appendix A - Reporting Definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B - Staff Interviewed

The following personnel were consulted:

- Shane Flynn - Assistant Director (Performance and Projects)
- John Gordon - Performance and Systems Lead
- Bill Haylock - Organisational, Development and Training Team Leader
- Steve Baker - Assistant Director (Chief Executives unit)
- Sarah Turner - Directorate Support Lead Officer
- Kim Gioiosa - PA to the Chief Executive
- James Doe - Assistant Director(Planning, Development and Regeneration)

We would like to thank the staff involved for their co-operation during the audit.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

June 2014

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