

**Public**  
**Key Decision - No**

## **HUNTINGDONSHIRE DISTRICT COUNCIL**

**Title/Subject Matter:** Internal Audit Service: Interim Progress Report

**Meeting/Date:** Corporate Governance Committee – 14  
September 2021

**Executive Portfolio:** Executive Councillor for Corporate Services  
Councillor David Keane

**Report by:** Internal Audit Manager

**Ward(s) affected:** All Wards

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### **Executive Summary:**

This report details the work completed/undertaken by the Internal Audit Service during the period April 2021 to end July 2021. It is noted that historically and interim progress report would cover half of the year and be reported to committee in the October or December meeting.

The Internal Audit Manager's opinion on the Council's internal control environment and systems of internal control as at 31 March 2021 was that it provided adequate assurance over key business processes and financial systems. However, there was a limitation placed upon the opinion for the area of risk management which was excluded from the opinion as there was insufficient evidence to be able to provide an assurance opinion. From the work that has been completed since, that opinion remains unchanged.

During the reporting period it should be noted that:

- The 2020-21 Audit Plan has been completed and all reviews have been completed and reported and agreed audit actions assigned to the database for monitoring.
- For the 2021-22 Audit Plan some reviews are underway but only one has been completed/reported on.
- No changes have so far been made to the Audit Plan except for dropping some quarter reviews from the key systems continuous reviews. Very little time has passed since the Plan started. No new requests for assurance have been received from any source, similarly, no new emerging areas or risks have been notified to Internal Audit for inclusion.
- IT audit provision: it has been decided that it is within HDC's interest to allow a direct award of contract for a further year and BDO have agreed. The IT audit plan remains under discussion.
- 4Action software continues to be used for real-time management and reporting on the implementation of audit actions.

In accordance with the Internal Audit Charter, the Internal Audit Manager continues to report functionally to the Corporate Governance Committee and administratively to the Assistant Director of Corporate Services. She has maintained organisational independence and has had no constraints placed upon her in respect of determining overall audit coverage, audit methodology, the delivery of the audit plan or proposing actions for improvement or forming opinions on individual audit reports issued.

Resourcing the Service has proved to be an ongoing issue throughout the period. The Internal Audit Manager was confirmed to post in April 2021 leaving behind a vacancy for the Auditor post. It has been very difficult to recruit to this post, with limited suitable candidates and a failed recruitment drive. Instead we looked to training our own auditor and a new trainee is due to start within this role in September. This leaves the Service in its fully resourced position but there will be impact on delivery as the trainee will be given training days (internally and for professional qualification) and the Manager and Auditor will be required to train and mentor.

**Recommendation(s):**

The Committee is recommended that in considering the report, the following should be noted:

1. The Internal Audit Manager's unchanged opinion of 'adequate assurance' over the internal control environment and system of internal control; and
2. The Internal Audit Plan as agreed by Committee in March 2021 remains a flexible list of reviews and is unlikely to be fully delivered this year.
3. SLT have been invited to provide areas where assurance is required and also new/emerging areas, both of which should be continually considered for inclusion in the flexible Plan.

## **1. PURPOSE OF THE REPORT**

- 1.1 This is an interim progress report detailing the performance of the Internal Audit Service for the period April - July 2021.

## **2. WHY IS THIS REPORT NECESSARY**

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require that the Committee (who fulfil the role of the Board, as defined by PSIAS) receive an annual report on the work of the Internal Audit Service. Best practice suggests that an interim report should also be presented, to keep the Committee aware of any issues of concern that have been identified and the progress achieved with the delivery of the audit plan.

## **3. ANALYSIS**

- 3.1 The progress report (April-July 2021) on the Internal Audit Service is attached at Appendix 1.

## **4. KEY IMPACTS / RISKS**

- 4.1 Insufficient audit assurance work risks the inability to provide an annual audit opinion.

## **5. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND/OR CORPORATE OBJECTIVES**

- 5.1 The Internal Audit Service provides assurance to both management and the Panel that risks to the delivery of the Corporate Plan across all of its areas are understood and managed appropriately.

## **6. REASONS FOR THE RECOMMENDED DECISIONS**

- 6.1 The report is for information purposes and to allow Committee to gain an understanding of the views of the Internal Audit Manager on the internal control environment and systems of internal control.

## **7. LIST OF APPENDICES INCLUDED**

Appendix 1 – Internal Audit Interim Progress Report  
Appendix 2 – Audit Plan 2021.22

## **8. BACKGROUND PAPERS**

Internal Audit reports  
Internal Audit performance management information

## **CONTACT OFFICER**

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## INTERNAL AUDIT SERVICE

### Interim Progress Report: April To July 2021

#### 1. DELIVERY OF 2021/22 Audit Plan

- 1.1 Committee approved the Internal Audit Plan at its March 2021 meeting. During the last few years, a mixture of Plans has been formulated from an annual plan, 2 x six-monthly plans to quarterly plans. Due largely to the limited size and capacity within the team, no one method of presenting a plan has proved better than another. For this year's work an annual plan was prepared and took the form of a list of areas that it was felt should be looked at and put in a basic priority order. The limited and unknown audit resources suggested that presenting in number of days was impractical until a steady audit resource was in place. In reality, the order with which these reviews are taking place depends on who is available and most appropriate to carry out the review (especially given the limited staff and other responsibilities).
- 1.2 During the period, the Internal Audit Service faced challenges in terms of audit resource. The Acting Internal Audit Manager was appointed to the permanent role in April 2021 on a part-time basis, leaving behind an Auditor post vacancy. Recruitment to this post proved difficult with a national shortage of auditors generally and fewer with public sector experience. An applicant was appointed but then withdrew due to a counter-offer. A decision was taken that, rather than advertise externally again or resort to Agency assistance, which would be significantly more expensive, we would advertise internally for a trainee internal auditor and 'grow our own'. This plan proved successful and a new trainee auditor is due to start at the beginning of September. It is intended that this trainee will learn on-the-job and study for the Institute of Internal Auditors (IIA) qualification at the same time. The grade awarded to the post will hopefully retain this postholder long after qualification and support resilience and succession planning for the future.
- 1.3 Supporting a trainee within a very small team will have an effect on the Service delivery but is a worthy investment in future capacity and long-term sustainability. The trainee will be given days to support their development plan and a training days allowance to support the IIA study. Currently the amount is undetermined.
- 1.4 For the period April – July the Service has been operating on just over 1 full time equivalent (FTE) to cover all audit (both reviews and manager work) and non-audit work.

From September the IA Service will be resourced as follows:

Internal Audit Manager –	0.67 FTE
Auditor -	0.43 FTE
Trainee Internal Auditor –	1.0 FTE

Total for general audit	2.1 FTEs
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Operating at full capacity and within current budget.

- 1.5 The nature of internal audit work is such that the audit plan may change frequently. Adjustments may need to be made to the audit plan to respond to changes that are occurring within the Council, so ensuring that audit time is spent reviewing the most appropriate areas or to take account of unplanned additional time being spent on audit reviews. SLT have been asked to feed any such areas into the plan but there has been little to no input received.
- 1.6 The judgement of the Internal Audit Manager is that, following the unprecedented pandemic year, Services are still balancing between adjusting and maintaining their business-as-usual work, and thus any further requests are not given the attention they should be given due to capacity levels and 'priority balancing'.
- 1.7 The Audit Plan therefore remains as its original list with a further list of emerging areas that could become replacement reviews if needed or rolled over to the 2022/23 Plan. No audit reviews have been removed (with the exception of some quarterly reviews - see below) and no additional areas thus far added. Given the early timing of this report in the financial year, it is likely that the plan could change later in the year but any such changes will be made under consultation with the Assistant Director and the Chair of the Committee.
- 1.8 Audit reports that have been issued in the period since April 2021 are listed below together with the assurance opinion given. Copies of final audit reports for the 2020.21 Plan have been circulated to the Committee by email.

<i>Title</i>	<i>Opinion</i>
Cyber Security 20.21	Limited
Treasury Management 20.21	Adequate
Budgets & MTFs 20.21	Adequate
Budget monitoring & Forecasting 20.21	Substantial
Housing Benefit – Creditors 20.21	Adequate
Housing Benefit – Debtors 20.21	Adequate
Digital Service Management 20.21	Adequate
Main Accounting System 20.21	Adequate
Creditors 20.21	Adequate
Debtors 20.21	Limited
Council Tax & NNDR 20.21	Adequate
Contractor Management 20.21	Limited
Cloud Services 20.21	Limited
Capital Plan follow-up review 21.22	No opinion

- 1.9 The attached audit plan shows the status of each audit review. The following plan work has been undertaken:
- |  |                              |
|--|------------------------------|
| Quarter 4 reviews on all key financial systems     | - completed and reported     |
| Quarter 1 reviews on selected key financial system | - completed                  |
| Delivery of Capital Plan                           | - memo report issued         |
| Contract expenditure review                        | - near completion            |
| Northgate  | - discussions undertaken     |
| Town Programme                                     | - started, testing underway  |
| DFG certification                                  | - completed                  |
| Covid account                                      | - initial discussions held   |
| Recruitment module of new system                   | - quick overview of controls |
- 1.10 Due to the limited resources of both the IA service and the client services, the Audit Manager has taken the decision to remove some quarter reviews from the key financial system reviews which are usually performed under continuous

review every quarter. This has been done on a risk-balanced basis: the Housing Benefits system is found generally to be compliant and has therefore been dropped from review for Q1; Q2 reviews will similarly be removed from some areas where compliance is good and an opinion can be made on two/three quarter reviews instead of 4. Coverage taken will be stated in the annual IA report at year end.

1.11 Internal Audit has also completed work in several other areas including:

- Supporting the Corporate Governance Committee in the annual governance review, the preparation of the Annual Governance Statement and its annual report
- Membership of the new Risk & Controls Group and its reports to SLT
- Discussions on the new Recruitment module on HR system
- National Fraud Initiative reviews
- Guidance and advice have also been provided to managers and staff on an ad-hoc basis on a wide variety of control issues.
- Advice/info to insurers on several issues
- Advice and info to other local authority Audit Managers
- Attendance at Management Team, Services Forums, etc
- Preparation of reports to CGC, including progress information on AGS issues
- IT audit contract management and engagement work
- Complaints received via Whistleblowing
- Advice on data breach by third party
- Corporate complaint (MD request)
- Advice on latest Covid grant award
- IA intranet site maintenance and review

## **2. IT AUDIT**

2.1 The IT audit contract with our providers BDO Ltd expired in March 2021. Following consultation with HDC's Procurement Lead, a decision has been taken to award a direct contract for one year to BDO under the same contract terms. This has been agreed by BDO and ICT management have been asked to propose areas for inclusion in an IT audit plan for this year. This is still in preparation as there is limited Risk information that could be used to assess areas that need assurance provided by an audit review. Once proposals are made, BDO can be appointed and decide together what areas will be audited in 2021/22.

2.2 All the planned IT audit reviews for 2020/21 have been completed and reports issued. Due to covid, a significant amount of both the fieldwork and the reporting on these reviews fell over into 2021/22. Both BDO and HDC worked together to ensure the reviews were completed as efficiently as possible and significant Audit Manager time had to be redirected towards this to ensure the audits were closed in time to be included in the annual opinion report and Annual Governance Statement for last year.

### **3. IMPLEMENTATION OF AGREED ACTIONS**

- 3.1 Separate reports on the implementation of agreed audit actions are regularly provided to both Committee (currently at each meeting) and the Senior Leadership Team (via the monthly Risk & Controls Group report).
- 3.2 The 4Action system continues to be used to record, manage and report on all agreed audit actions that result from audit reviews. A system for managing the audit follow-up of implemented actions still needs to be designed (to eliminate time used inefficiently on manual monitoring). Presently, follow ups of individually selected actions are not carried out as we instead concentrate our efforts on audit reviews. However, there are several follow up reviews of previous audit areas listed in the audit plan because they are assessed as significant.
- 3.3 IT audit actions were all followed-up last year and any found not in place were reopened for further work by the Service.

### **4. ISSUES OF CONCERN**

- 4.1 Whilst there have been a number of limited opinion reports issued since April 2021 these relate to the previous year's audit plan and were therefore included in the annual report and opinion for 2020/21. These reports were only recently presented to Committee in July 2021. There is nothing new of any significance that needs to be brought to the attention of the Committee.

### **5. INTERNAL AUDIT'S PERFORMANCE**

- 5.1 As reported in the Annual Report in July, service delivery targets and customer satisfaction targets have not been maintained due to the low throughput of reports and staffing and the known resource time it has taken in previous years to produce these statistics.

- 5.2 Previous service delivery targets included:

- Completion of audit fieldwork by the date stated on the audit brief
- Issue draft audit reports within 15 days of completing the fieldwork
- Meet with the customer and receive response allowing draft report to progress to final within 15 working days of issuing a draft report
- Issue final audit report within 5 working days of receiving full response

And customer satisfaction targets included:

85% or more of auditees rating service quality as good or better (this was obtained by an end of audit survey form which managers were requested to completed giving an opinion on the value of the audit.

Whilst not reported on, our internal processes still support issuing reports within these 'deadlines' and will continue to be used within the team to both progress audits and evaluate auditor performance generally.