

**INTERNAL AUDIT SERVICE
ANNUAL REPORT**

(Report by the Internal Audit Manager)

1. Purpose

- 1.1 To receive the annual report of the internal audit service.

2. Introduction

- 2.1 This report provides an audit opinion for the 12 month period July 2004 to June 2005. It also details the details the work undertaken against the 2004/05 annual audit plan and the performance standards achieved.

3. Audit Opinion

- 3.1 Internal Audit's terms of reference require an opinion to be given on the overall adequacy and effectiveness of the Council's internal control environment.

- 3.2 The internal control environment comprises the Council's policies, procedures and operations in place that:

- establish and monitor the achievement of its objectives
- identify, assess and manage the risks to it achieving its objectives
- facilitate policy and decision making
- ensure the economical, effective and efficient use of resources
- ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations
- safeguard its assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
- ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes

- 3.3 An opinion on the level of assurance is prepared at the conclusion of all audit reviews. Appendix A details the work undertaken during the reporting period and the opinions given. In addition to audit reviews, work is also undertaken on a sample of agreed actions introduced. The findings from this work also assist in the formation of the opinion. All audit reports can be accessed by Members via the Internal Audit intranet site.

- 3.4 The statement below is based upon individual audit report opinions and the action taken by managers to address the risks identified.

It is my opinion, based upon the audit work completed in the period 1 July 2004 to 30 June 2005, that Huntingdonshire District Council's internal control environment and systems of internal control provide limited assurance over the effective exercise of its functions.

In preparing this opinion I have been particularly conscious of giving appropriate weighting to issues relating to the lack of compliance with the Code of Procurement. Whilst there is no evidence that the Council has been disadvantaged by Officers not complying with the Code, the breaches have been serious enough for the Monitoring Officer to issue

instructions to all Senior Officers reminding them of their responsibilities under the Code.

In addition, the lack of progress in dealing with the agreed actions arising from the document retention and records management audit is a significant corporate control issue.

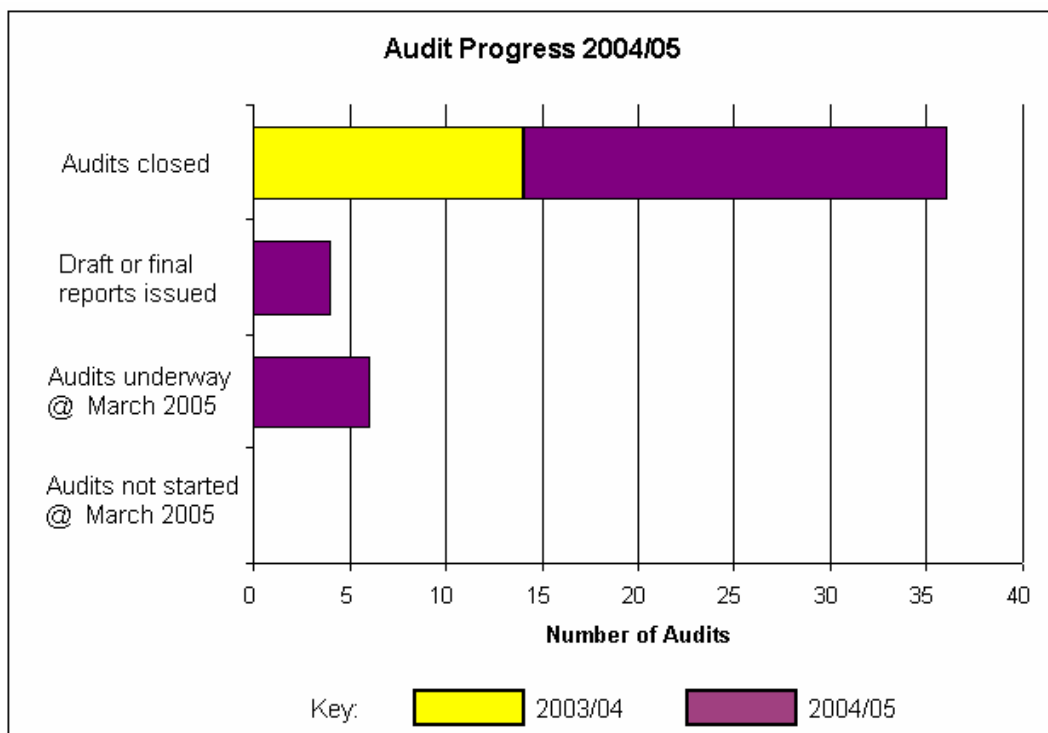
In respect of those systems that refer to, or are substantially related to, internal financial control, it is my opinion that the controls operated by management are currently adequate. However, the system of internal financial control can only provide reasonable and not absolute assurance that assets are safeguarded, transactions are authorised and properly recorded and material errors or irregularities are either prevented or would be detected within a reasonable period.

David Harwood
Internal Audit Manager
July 2005

4. Delivery of 2004/05 Audit Plan

4.1 The internal audit plan for the 2004/05 financial year, approved by the Director of Commerce & Technology, contained 33 audit reviews. The audit plan is not a static document but needs to be amended to reflect changing circumstances. The changes in 2004/05 resulted in the three audits being deleted and two added giving a revised total of 32.

4.2 36 audit reports were issued during 2004/05. Of these, 14 related to the 2003/04 audit plan. Summary details of the total work completed are shown below.



4.3 As at the 30 June 2005, of the ten audits underway at March 2005, seven had been closed and reports issued for the remaining three.

5. Internal Audit's Performance

5.1 Information in respect of the performance of the internal audit service is attached at Appendix B.

6. Service Improvements

6.1 Like all Council services, Internal Audit is continually striving to improve its performance. Improvements planned include:

- improved linking of the audit planning process to the risk registers;
- reviewing how individual audit opinions will effect mitigating controls recorded in the risk register; and
- examining the options for management self-assessment to assist with the preparation of the corporate governance statement.

7. Recommendation

7.1 It is recommended that the Panel note the report.

ACCESS TO INFORMATION ACT 1985

Internal Audit Reports

Internal Audit Performance Management Information

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Summary of Internal Audit work undertaken during the period 1 July 2004 to 30 June 2005

The internal audit opinion for the period 1 July 2004 to 30 June 2005 is based on work undertaken across the following three areas:

- audit reviews completed in the 12 month period ended 30 June 2005;
- a review of those audits that contained significant weaknesses in previous years; and
- the action taken by managers to implement previously agreed actions.

Audit Reporting and Management Action

The audit reporting process has the following five stages.

- 1 Audit completed & draft report prepared.
- 2 The draft report may contain suggested actions to mitigate risks. Actions are placed into a 'red' or 'amber' category.

Red these are actions that must be implemented as the current exposure to risk is unacceptably high, indicating a major control weakness

Amber these are actions that managers have agreed to introduce, as the current risk exposure is high. Controls weaknesses have been identified that have the potential to compromise internal control, operational effectiveness or service delivery.

- 3 Assurance opinion reached based on action categories and the number of suggested actions proposed.

Substantial Assurance



There are no weaknesses in the level of internal control for managing the material inherent risks within the system. Testing shows that controls are being applied consistently and system objectives are being achieved efficiently, effectively and economically apart from any excessive controls which are identified in the report.

Adequate Assurance



There are minor weaknesses in the level of control for managing the material inherent risks within the system. Some control failings have been identified from the systems evaluation and testing which need to be corrected. The control failings do not put at risk achievement of the system's objectives.

Limited Assurance



There are weaknesses in the level of internal control for managing the material inherent risks within the system. Too many control failings have been identified from the systems evaluation and testing. These failings show that the system is clearly at risk of not being able to meet its objectives and significant improvements are required to improve the adequacy and effectiveness of control.

Little
Assurance



There are major, fundamental weaknesses in the level of control for managing the material inherent risks within the system. The weaknesses identified from the systems evaluation and testing are such that the system is open to substantial and significant error or abuse and is not capable of meeting its objectives.

- 4 Final report prepared. Suggested actions changed to agreed actions. Some current risks may be accepted with the agreement of the relevant Director. Report issued.
- 5 Head of Service accepts report. Audit closed. Report issued to Director & S151 Officer.

The table below summarises the assurance opinions given to individual audits reported upon in the period July 2004 to June 2005 and the category of individual actions. Prior to the overall opinion being prepared reviews were completed to see the progress made in introducing agreed actions. This ensured that the opinion could be as relevant as possible and be based upon the current situation within each system.

Audit Area	Level of Assurance				Agreed Action Status		
	Substantial	Adequate	Limited	Little	Red	Amber	Action not agreed & the risk identified accepted
Key Financial Systems							
NNDR		✓				1	
Council Tax		✓				3	
Housing Benefits		✓				3	
Creditors		✓				8	
Payroll			✓		1	7	
Other systems reviews							
Housing Benefit Fraud	✓				----	----	
Miscellaneous Income	✓					1	
Arts Services		✓				5	1
Bailiffs		✓				6	
Management of Raising Debt		✓			----	----	
Historic Building Grants		✓				5	
S151 & Monitoring Officer		✓				5	
Parks & Open Spaces		✓				5	
VAT		✓				8	
Members' Allowances		✓				3	
Flexitime		✓				8	
Corporate Cards <i>* currently final, not closed</i>		✓			----	----	
Budgetary Control and Management Information		✓				4	
Provision of Legal Advice		✓			----	----	
Leisure Centres			✓		2	5	
Staff Allowances			✓		1	21	
Complaints Procedure			✓		4	6	
Health and Safety and Contractors Compliance			✓		1	3	
Equipment Servicing			✓		3	6	
Appointment of Temporary and Casual Staff			✓		3	4	

Audit Area	Level of Assurance				Agreed Action Status		
	Substantial	Adequate	Limited	Little	Red	Amber	Action not agreed & the risk identified accepted
Tender Documentation and Conditions of Contract			✓		1	9	
Approved List Maintenance				✓	1	4	
Condition Survey Management				✓	1		
Computer Audit							
E-financials application review - General Ledger		✓				6	
- Debtors		✓				3	
- Creditors			✓		1	2	
Payroll application review		✓				6	
Electronic payments		✓				8	
Payroll Operating System <i>* currently draft, not final</i>		✓				9	
Network Review				✓	4	3	1

In addition to the audits listed above, audit reviews have also been completed in the areas of corporate governance, whistleblowing and the provision of gas and electricity.

Issuing outstanding from previous years reports

Audits that received a low opinion in the 2003/04 annual audit report are listed below together with a summary of the progress made towards implementing the agreed actions.

Project Management	All the actions have not yet been fully introduced. Sufficient progress has been made however that the low opinion no longer applies and it has been raised to limited.
Document Retention & Records Management	This audit, which was closed in February 2004, was given a little assurance opinion. The actions in the report all had an agreed implementation date of March 2005. Introduction of the agreed actions was delayed whilst responsibility for the appointment and subsequent line management of the Information Manager post was transferred from Central Services to IMD. The Information Manager, who will be responsible for dealing with the audit report, commenced in June 2005.

Internal Audit Performance

1. Introduction

1.1 Internal audit have prepared a set of performance measures that link into the Council's corporate performance management system. The measures which relate to the service's performance are listed below:

- External audit view of internal audit
- % of customers rating service quality as good or better.
- % of agreed actions implemented on time
- % of service delivery targets achieved.

2. External audit view of internal audit

Target: Adequate or better
Achieved: Good

2.1 In February 2004 the external auditor (District Audit) as part of the CPA review, assessed Internal Audit as being 'good' - the highest mark available.

The external auditor's 2003/04 annual audit and inspection letter published in December 2004 contained the following remarks;

“We continue to work closely...(in the area of systems of financial control) with internal audit so that there is no duplication of audit coverage. We annually assess the quality of the work of internal audit to determine whether we can rely on it and thus reduce our own audit testing.

This year our assessment also fed into the auditors scored judgement for CPA purposes. As in the past we found that the internal audit work is of a high standard and we used it as assurance in those areas relevant to our audit”.

2.2 With effect from April 2005 RSM Robson Rhodes have been appointed external auditor. Discussions have already taken place with them regarding the level of reliance they expect to be able to place upon internal audit's work in future years. Robson Rhodes also intend to undertake a review of internal audit. This review will consider the work performed on key financial systems, compliance with the minimum standards set out in the CIPFA Code of Audit Practice and a review of a sample of working paper files and audit reports. The results of this review will be reported to the Panel in due course.

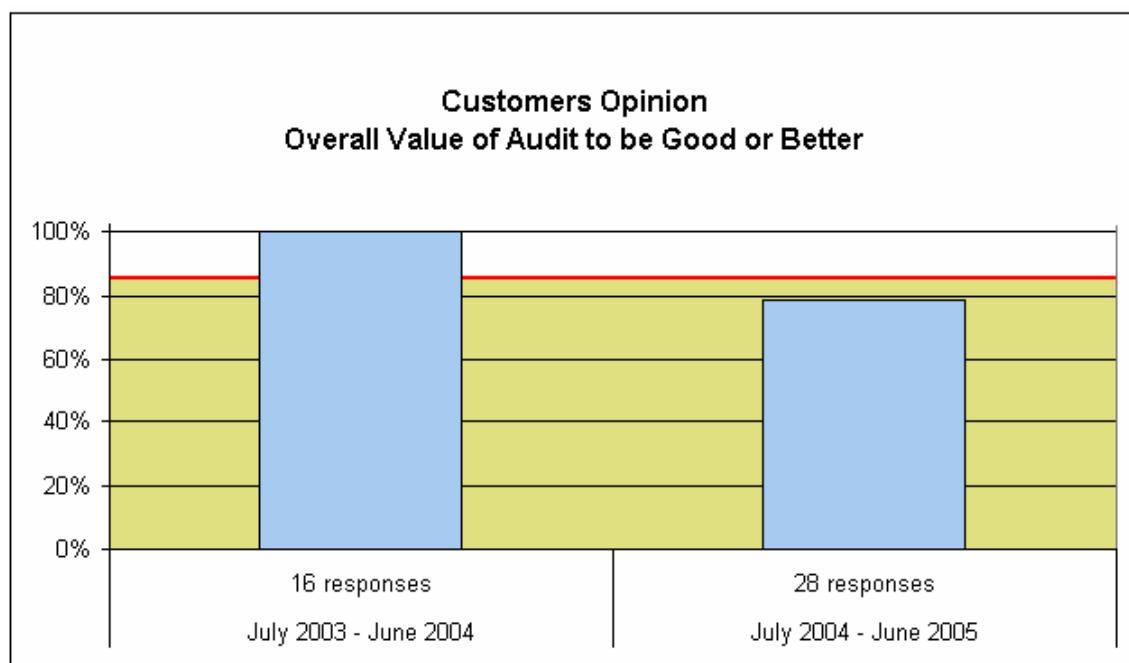
3. Customer Satisfaction

Target: 85% or more of customers rating service quality as good or better.

Achieved: 12 months to June 2005 - 79%

- 3.1 At the conclusion of all audits, managers are requested to complete an end of audit survey form and give an opinion on the value of the audit. The options available are - very good, good, fair and poor. Target information is calculated on a rolling twelve month basis rather than by financial year.

In 2004 the Head of Financial Services undertook a customer satisfaction survey with senior managers. A similar exercise was completed in April 2005. This showed that the percentage of senior managers who considered the internal audit service to be good or better had risen from 81% in 2004 to 89%.



- 3.2 The 79% figure to June 2005 is a result of 6 out of the 28 responses being in the 'fair' category. The Audit Manager has spoken to all of the managers who have placed an audit in this category and discussed with them the issues relating to the audit and the reasoning behind the mark.

4. Introduction of agreed actions

Target: 60% or more of agreed actions to be implemented on time.

Achieved: 12 months to June 2005 – 66%

- 4.1 This target measures the percentage of agreed actions implemented within agreed timescales, calculated on a 12 month rolling basis. A database has been established to record this information. Managers responsible for introducing the actions are required to update the database with the action they have taken and the date that the action was introduced.

4.2 Whilst internal audit are unable to directly influence the speed by which agreed actions are introduced, regular reports are issued to the Directors showing the current state of individual audit actions. Whilst managers have improved their performance, further improvement is desirable and reports are to be developed in the next few months that detail performance by manager.

5. **Service delivery targets**

Target: 75% or more of service delivery targets achieved.

Achieved: 12 months to June 2005 – 50%

5.1 Service delivery targets all relate to the progress of individual audits and the reporting process:

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

5.2 Performance indicators are prepared monthly in respect of each target and circulated to internal audit staff. Achievement of the targets requires internal audit staff to develop and maintain good working partnerships and the customer's co-operation throughout the period of the audit. Action is being taken to review the reporting process, including explaining to managers the importance of responding within the time limits set.