

**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 14 month period July 2005 to August 2006. It also details the details the work undertaken against the 2005/06 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 2005 to 31 August 2006, that Huntingdonshire District Council's internal control environment and systems of internal control provide limited assurance over the effective exercise of its functions.

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.

Any system of internal control can only provide reasonable, rather than 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 of time.

David Harwood
Internal Audit Manager

September 2006

4. Delivery of 2005/06 Audit Plan

- 4.1 The internal audit plan for the 2005/06 financial year, approved by the Director of Commerce & Technology, contained 44 audit reviews. The audit plan is not a static document but needs to be amended to reflect changing circumstances. The changes in 2005/06 resulted in the five audits being added and three deleted giving a revised total of 46.
- 4.2 All but one of these audits has been closed. The outstanding audit, which has been issued in draft relates to data consistency.

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 A revised version of the Code of Audit Practice for Internal Audit is likely to be issued in the next few months to address changes brought about by the Accounts & Audit (Amendment) Regulations 2006. Once issued, the audit strategy and terms of reference together with other working practices will be reviewed to ensure that they remain relevant and meet the requirements of the revised Code.
- 6.2 The 2006 Regulations also require for the first time that a formal annual review of the 'effectiveness of its system of internal audit' is conducted. A further report detailing the options available for this review and its timing will be submitted to a future meeting.
- 6.3 Internal Audit is continually striving to improve its performance. Developments planned over the next 12 months include:
- reviewing the audit reporting process;
 - further improving the link between the risk register and audit planning process;
 - reviewing how individual audit opinions will effect mitigating controls recorded in the risk register; and
 - reviewing the internal audit training & development scheme.

7. Recommendation

- 7.1 It is recommended that the Panel note the report and annual opinion statement.

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 2005 to 31 August 2006

The internal audit opinion for the period 1 July 2005 to 31 August 2006 is based on work undertaken across the following three areas:

- audit reviews completed in the 14 month period ended 31 August 2006;
- 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

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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 2005 to August 2006 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	The risk identified accepted
Key Financial Systems							
Creditors	✓✓				---	---	
Loans & Investments	✓✓				---	---	
Housing Benefits	✓✓					1	
Cash Income & Receipting	✓✓					1	
Payroll & Personnel		✓			2	4	
NNDR		✓			1	1	
Council Tax		✓			1	4	
Debtors		✓				4	
Other systems reviews							
Asset Management Plan	✓✓				---	---	
Mortgages	✓✓				---	---	
Refuse & Kerbside Waste Collection	✓✓					4	
Homelessness	✓✓					3	
Car Leasing	✓✓					2	
Bank Reconciliation	✓✓					2	
Leisure Centres		✓			1	12	
Grants to Outside Bodies – Community Initiatives		✓			1	5	
Freedom of Information		✓				10	
Licensing		✓				8	
Disciplinary Process		✓				7	
Purchasing Cards		✓				6	
Printing		✓				6	
Strong & Diverse Economy		✓				6	
Delivery of MTP Developments		✓				6	
Diversity & Social Inclusion		✓				5	
Housing Meeting Local Needs		✓				5	
CCTV		✓				5	
Computer Training		✓				5	

Audit Area	Level of Assurance				Agreed Action Status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified accepted
Staff Appraisal		✓				5	
Employees – Travel & Subsistence		✓				5	1
Disposal of electronic & paper information		✓				4	
Appointment of Consultants		✓				3	
Contract - Variations		✓				3	
Good Reputation		✓				3	
Charging for Council Services		✓				1	
Appointment of Consultants – follow up review		✓			---	---	
Emergency Planning – Civil Contingency			✗		5	7	
Leisure Centres – Bars & Catering			✗		4	7	
Markets			✗		2	5	
Internet Monitoring			✗		1	4	
Performance Indicators			✗		1	1	
Computer Post Implementation Review			✗		1	1	
Balanced Scorecard & Performance Management			✗			8	
Contracts – Use of the Quotation Process			✗			3	
Computer Audit							
E-mail Review		✓			1	3	
Software Licensing		✓				7	
BACS Review		✓				6	
Customer First Application		✓			1	1	
Business Continuity & Disaster Recovery			✗		1	7	
Revenue & Benefits Application Review			✗			5	1

Issuing outstanding from previous years reports

Audits that have previously affected the overall opinion are listed below together with a summary of the progress made towards implementing the agreed actions.

Document Retention & Records Management This audit, which was closed in February 2004, was given a ‘no assurance’ opinion. The actions in the report all had an agreed implementation date of March 2005. Whilst all the actions have not yet been fully introduced sufficient progress has been made so that the ‘no assurance’ opinion will at least rise to “limited” when fully reviewed.

Approved List Maintenance This audit, which was closed in December 2004, was given a ‘no assurance’ opinion. Seven actions were agreed, of which 5 have been fully introduced. This is sufficient, without further work being completed, to raise the opinion to limited assurance.

Leisure Centre – Management of the Condition Survey This audit, which was closed in April 2005, was concerned with the management of consultants appointed to undertake condition survey work at the Leisure Centres. Two pieces of work have since been undertaken into the use of consultants, both of which are reported in the table above and resulted in adequate opinions being given.

Network Review This audit, which was closed in November 2004, was given a ‘no assurance’ opinion. Seven actions were agreed and all have been fully introduced. This will at least raise the opinion to “limited” when it is fully reviewed.

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: Satisfied

2.1 The external auditor's annual audit and inspection letter of April 2006 contained the following remarks;

“The Audit Commission continued to be satisfied that the quality of the work done by Internal Audit meets the standards set by the CIPFA Code of Practice and obtained assurance from its work whenever possible to complement and limit their own coverage. In particular, the external audit relied on Internal Audit's documentation and review of key controls of the main financial systems. Their work in this area has increased significantly in the current year due to the need to comply with new international auditing standards.”

2.2 The external auditor's Audit of Accounts 2005/06 report to those charged with governance contains the following remarks;

“We aim to place reliance on the work of internal audit in accordance with the ‘managed’ audit approach. In 2005/06 we have been able to place reliance on the work of internal audit in respect of the key accounting systems.”

3. Customer Satisfaction

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

Achieved: 12 months to August 2006 - 87%

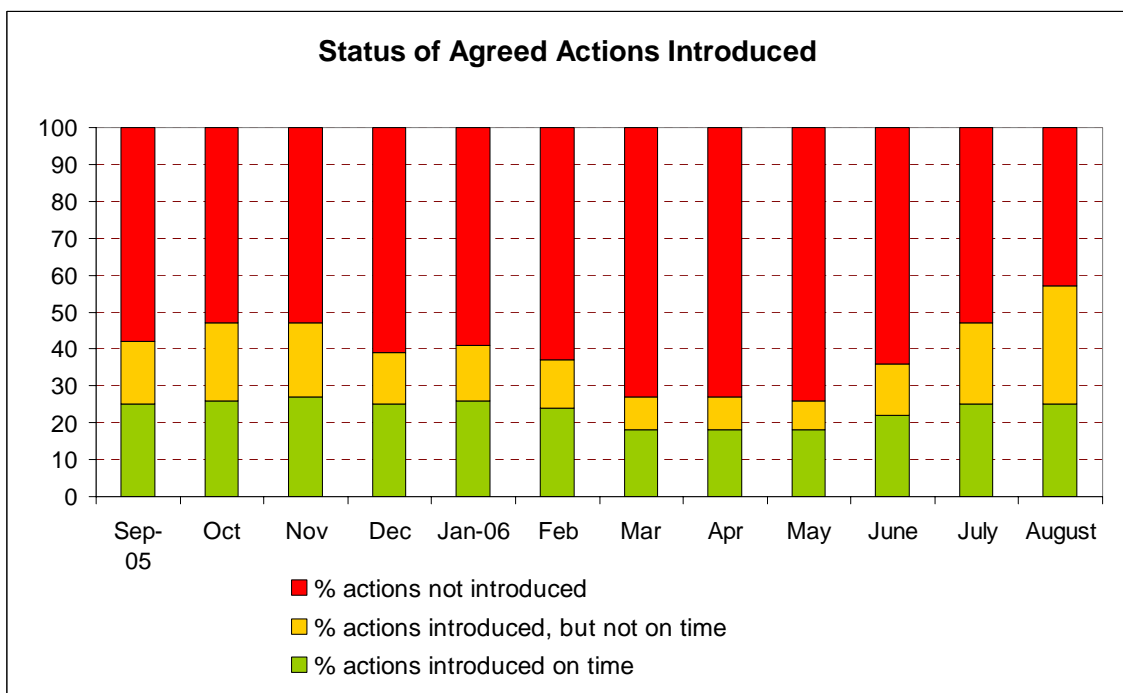
3.1 At the conclusion of all audits, managers are requested to complete an end of audit survey form and give an opinion on the value of the audit. The options available are – excellent, very good, good, fair and poor. Target information is calculated on a rolling twelve month basis rather than by financial year. The figure is based on 31 returns.

3.2 The Head of Financial Services annual customer satisfaction survey conducted with senior managers has also shown an increase for the third year running in the percentage who consider the internal audit service to be good or better

- April 2004 81%
- April 2005 90%
- April 2006 96%

4. Introduction of Agreed Actions

- 4.1 The balanced scorecard has a target that 60% or more of agreed actions should be implemented on time. For the 12 month period ending August 2006 25% of agreed actions have been implemented on time.
- 4.2 An on-line database has been established which holds details of all agreed actions. 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. Each Director, Head of Service and Activity Manager is able to access the database and obtain real-time reports that list by date or status, the actions that they have agreed to introduce.
- 4.3 Performance figures for this area were last reported to Panel in December 2005 in respect of the 12 month period ending October 2005. At that time, the target achieved was 26% of actions implemented on time. Panel asked that Directors and Heads of Service be reminded of the importance of introducing actions within agreed timescales.
- 4.4 Whilst performance on the scorecard target has not greatly improved there has been a marked increase in the overall percentage of actions that have been introduced. 57% of all actions that were due to be introduced in the 12 month period ending August 2006 having being done so. COMT are aware of the importance of ensuring that agreed actions are introduced on time and have asked for regular reports on performance.



- 4.5 A sample of actions that have been reported as being completed are checked to see that the action introduced sufficiently addresses the risk that has been identified. In respect of those actions introduced up to 31 May 2006, these checks have shown that the actions taken were appropriate and addressed the risks identified in the audit report.

- 4.6 It is recognised that there will be occasions where service issues arise after the dates for introducing actions have been agreed, that quite properly take priority over the introduction of the action.

5. Service delivery targets

Target: 80% or more of service delivery targets achieved.

Achieved: 12 months to August 2006 – 91%

- 5.1 There are four elements to this target which 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. The targets are also reflected in staffs key performance development targets within the annual appraisal process. 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.
- 5.3 This information was last presented to the Panel in June 2005 and the table below shows the targets and the change in performance between that date and August 2006.

	Performance as at:		
	<u>Target</u>	<u>30 June 2005</u>	<u>31 August 2006</u>
Complete audit fieldwork by the date stated on the audit brief	75%	39%	83% ↑
Issue draft audit reports within 15 working days of completing fieldwork	90%	90%	93% ↑
Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report	75%	55%	95% ↑
Issue final audit report within 5 working days of receiving full response	90%	91%	95% ↑
Overall	82%	68%	91% ↑