

**INTERNAL AUDIT SERVICE
ANNUAL REPORT
(Report by the Internal Audit Manager)**

1. Purpose

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

2. Introduction

- 2.1 This report provides an audit opinion for the 12 month period ending August 2007 and provides performance information on relevant matters.

3. Audit Opinion

- 3.1 The levels of assurance identified in each audit review together with a sample check to see that reported actions have been delivered are taken into account to form an overall opinion on the adequacy and effectiveness of the Council's internal control environment. This is shown below

It is my opinion, based upon the audit work completed in the 12 month period ending 31 August 2007, 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
Audit & Risk Manager

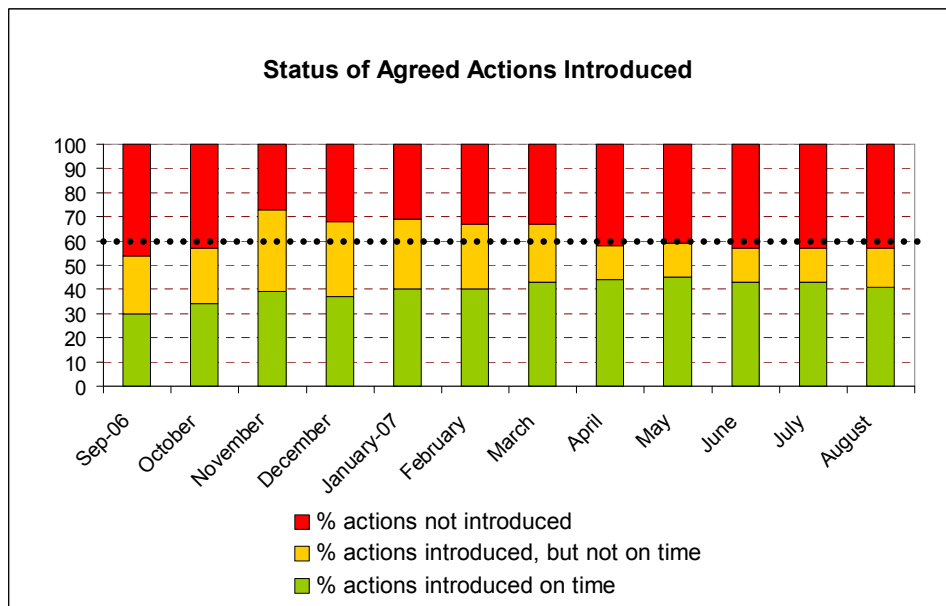
September 2007

4. Delivery of 2006/07 Audit Plan

- 4.1 The internal audit plan for the 2006/07 financial year, approved by the Director of Commerce & Technology, contained 42 audit reviews. The audit plan is not a static document but needs to be amended to reflect changing circumstances. The changes in 2006/07 resulted in a net reduction of three audits, giving a revised total of 39. In lieu of the planned audits, work was completed on reviewing information received from national fraud data matching initiative, the preparations for the delivery of services from the new Operations Centre, the management of maternity leave, the introduction of electronic signatures and fidelity guarantee insurance.
- 4.2 All but two of the 39 audits have been closed and details are shown in Annex A. Draft audit reports have been issued for the two outstanding audits, which relate to reviews of the network infrastructure and ICT facilities in the new accommodation.

5. Implementation of Agreed Actions

- 5.1 An on-line database is in place which holds details of all the actions that have been agreed by the service manager together with their intended introduction dates prior to the closure of an audit. Managers 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 reports that list actions outstanding, partially or fully completed.
- 5.2 A target has been included in the internal audit service plan, that 60% of agreed actions should be implemented on time. This is based on a rolling 12 month approach and the graph below illustrates performance from September 2006 to 31 August 2007.



- 5.3 In the 12 months to 31 August, 41% were implemented on time 16% were late and 43% have not been implemented. Whilst 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, this low level of performance has affected the overall assurance opinion. The table at Annex B shows the split between red and amber actions and by Directorate.
- 5.4 Of the actions not yet implemented the 8 detailed in Annex C were red actions that must be implemented to solve the more significant control weakness.

6. Internal Audit's Performance

- 6.1 Information in respect of the performance of the internal audit service is attached at Annex D.

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 September 2006 to 31 August 2007**

Audit area	Level of assurance				Agreed action status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified has been accepted by the Manager ¹
Key Financial Systems							
Housing Benefits	✓✓					3	
Payroll/HR system	✓✓				---	---	
NNDR	✓✓				---	---	
Main Accounting System	✓✓				---	---	
Debtors		✓				5	
Creditors			✗		1	5	
Other systems reviews							
External fee income	✓✓				---	---	
Gershon Efficiency Savings	✓✓					4	
Management of Health and Safety		✓			1		
Data Protection		✓			1	3	
Call Centre: Speake House		✓				7	
Car Parking		✓				5	
Building Control Fees		✓				5	
Overview & Scrutiny		✓				4	
Insurance		✓				3	
Gifts & Hospitality		✓				3	
Section 106 Agreements		✓				3	
Contracts - Selection, Opening of Tenders		✓				3	
Retention of key IT staff		✓				3	
Corporate Communications		✓				1	
Implementation of Management & Member Decisions		✓				1	
Corporate Subscriptions		✓				1	
Personnel - Staff Recruitment			✗		4	8	
Leisure Centres			✗		3	11	
Staff Capacity and Performance			✗		2	3	1
Newspaper Advertising			✗		2	1	
Uniform Application Audit			✗		1	8	2
Overtime			✗		1	5	
Asset Register			✗		1	4	
Mobile phones & PDAs				✗✗	4	2	
Computer Audit							
ICT Facilities Move: Eastfield House ²		✓				4	
Network Infrastructure ²			✗		1	7	
Change Management			✗		2		1
Data Consistency				✗✗	4	5	

¹ There are occasions when a risk identified during an audit is acknowledged and accepted by a Manager and they decide that no further action is required. The right hand column of this table records all those instances.

² Draft report issued as at 31 August 2007.

All audit reports can be accessed by Members via the Internal Audit intranet site.

The fraud and corruption plan identified supplier invoice fraud as a high risk area. A review has been undertaken that examined the operation of key controls with the aim of identifying potentially fraudulent or unusual transactions.

Issues outstanding from previous years

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

The right hand column of the table shows a revised assurance opinion, based upon the action that has been taken by the manager and evidence from the follow-up work that has been completed. The revised opinion is only a guide to the potential improvement that would be expected, if the audit was repeated and all other system controls remained effective.

Original level assurance	Agreed Action Status		Audit area and follow-up findings	'Potential' level of assurance
	Red	Amber		
<i>Limited</i>	4	8	Emergency Planning – Civil Contingency All the actions have been introduced.	<i>Adequate</i>
<i>Limited</i>	4	7	Leisure Centres – Bars & Catering With one exception, all the actions have been introduced.	<i>Adequate</i>
<i>Limited</i>	2	5	Markets All the actions have been introduced.	<i>Adequate</i>
<i>Limited</i>	1	4	Internet Monitoring The red action required a basic level of internet usage monitoring to be undertaken on a monthly basis (for example top ten users, site and categories etc). This action has been introduced but the reviews are not evidenced. All the amber actions have been introduced.	<i>Limited</i>
<i>Limited</i>	1	1	Performance Indicators Both actions have been introduced.	<i>Adequate</i>
<i>Limited</i>	1	1	Computer - Post Implementation Reviews The red action remains outstanding. See information in Annex C.	<i>Limited</i>
<i>Limited</i>		8	Balanced Scorecard & Performance Management All the actions have been marked as completed although they have not all been implemented due to the introduction of the new Corporate Plan.	<i>Limited</i>
<i>Limited</i>		3	Contracts – Use of the Quotation Process All the actions have been introduced.	<i>Adequate</i>
<i>Limited</i>	1	7	Disaster Recovery & Business Continuity Planning The red action remains outstanding. See information in Annex C.	<i>Limited</i>
<i>Limited</i>		5	Revenue & Benefits Application Review All the actions have been introduced.	<i>Adequate</i>

REMINDER

<i>Substantial Assurance</i>	✓✓	<i>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.</i>
<i>Adequate Assurance</i>	✓	<i>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.</i>
<i>Limited Assurance</i>	✗	<i>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.</i>
<i>Little Assurance</i>	✗✗	<i>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.</i>

**Implementation of Agreed Actions
Summary of the Actions Database as at 31 August 2007**

	Status of Action						TOTAL
	Introduced on time		Introduced Late		Not introduced		
Red Action	7		4		8		19
Amber Action	45		17		47		109
Total	52		21		55		128
% age on time	41%		15%		44%		
	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	
Central Services	0	9	3	8	5	25	50
Commerce & Technology	1	12	1	4	3	18	39
Operational Services	6	24	0	5	0	4	39
Total	7	45	4	17	8	47	128

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 August 2007, it was found that the majority of the actions taken were appropriate. Occasionally the action taken does not fully deal with the risk identified. In these cases the action taken is discussed with the appropriate manager and changes to the database are made to reflect the actual position.

'Red' Actions Outstanding

Audit	Head of Service	Action Agreed	Agreed Implementation Date	Head of Service's statement re current position as at 11 September
Post Implementation Reviews	Customer First Programme Manager & Head of Information Management Division	<p>Post Implementation Reviews will be reported to the appropriate level, i.e. Project Board.</p> <p>Where a project is progressed as a result of an MTP bid the PIR will be formally reported to Heads of Service and, where appropriate, Members (i.e. Overview and Scrutiny or Cabinet) for information and consideration in future project approvals.</p>	31/08/2007	A mechanism has been agreed for reporting both lessons learnt and post project reviews. No reviews have been reported to Members.
Data Consistency	Customer First Programme Manager & Head of Information Management Division	A Council wide data strategy will be developed which clearly identifies the goals in achieving data consistency across the Council.	30/04/2007	Data consistency is covered by the Information Management Strategy which is shortly to be presented to COMT.
Staff Capacity and Performance	Head of Personnel	Personal Development Plans are to be completed for all staff.	30/06/2007	The vast majority of these have been completed and returned to HR for inclusion in the corporate training plan.
Recruitment Advertising	Head of Personnel	Alternative recruitment advertisers will be investigated in order to obtain the best terms and service.	31/07/2007	This will be arranged during 2008 by the new HR Manager.
Staff Recruitment	Head of Personnel	A statement of particulars will be issued to the employee within eight weeks of commencing employment	31/07/2007	This has been rectified for new employees and for changes whilst in employment, but there remains a back-log which is being worked on.

'Red' Actions Outstanding

Audit	Head of Service	Action Agreed	Agreed Implementation Date	Head of Service's statement re current position as at 11 September
Management of Health & Safety	Head of Personnel	<p>All new employees should undergo the corporate Health & Safety induction within a reasonable amount of time (no more than four weeks from start date).</p> <p>All employees should undergo a basic health & safety induction by either their manager or Directorate Health & Safety Co-ordinator on their first day of work.</p>	31/01/2007	In place.
Overtime	Head of Personnel	<p>Waivers will be signed by staff who may potentially breach the Working Time Directive. When an employee does not wish to sign the waiver then care will be taken to ensure that the hours / shift patterns they work comply with the directive.</p>	31/07/2007	No employees currently breaching the Working Time Regulations.
Disaster Recovery & Business Continuity Planning	Customer First Programme Manager & Head of Information Management Division	<p>IT systems will be prioritised and the disaster recovery arrangements with the contractor, ICM, will be reviewed.</p>	30/09/2006	Prioritising IT systems in order of criticality for their recovery needs to be completed before progress can be made on this action.

Internal Audit Performance

1. External audit view of internal audit

Target: Adequate or better
Achieved: Satisfied

- 1.1 The external auditor continues to be satisfied with the work of the internal audit service, as recognised by his positive endorsement at the July meeting of the Panel.

2. Customer Satisfaction

Target: 85% or more of customers rating service quality as good or better.
Achieved: 12 months to August 2007 - 96%

- 2.1 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 23 returns.

- 2.2 The Head of Financial Services has also undertaken his annual customer satisfaction survey with senior managers. This year an electronic survey form was used and the number of responses decreased slightly. Whilst the overall percentage has fallen, it still remains high.

- April 2004 81%
- April 2005 90%
- April 2006 96%
- April 2007 85%

3. Introduction of Agreed Actions

- 3.1 See paragraph 5 of the main report.

4. Service delivery targets

Target: 80% or more of service delivery targets achieved.
Achieved: 12 months to August 2007 – 85%

- 4.1 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

- 4.2 Performance indicators are prepared monthly. 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.

4.3 Performance at 31 August for each of the target areas is shown below.

	<u>Target</u>	<u>31 August 2007</u>	
Complete audit fieldwork by the date stated on the audit brief	75%	↑	92%
Issue draft audit reports within 15 working days of completing fieldwork	90%	↓	80%
Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report	75%	↑	78%
Issue final audit report within 5 working days of receiving full response	90%	↔	90%
Overall	82%	↑	85%

4.4 It is disappointing that one of the measures has fallen below the target. Whilst meetings are held with customer within the 15 days, and in most cases a response is obtained during the meeting, occasionally a manager may wish to discuss matters further with colleagues, prior to formally responding. When this occurs, the 15 working day target is usually breached, despite the efforts of audit staff to obtain a response.

5. Service Improvements

5.1 Following the formal review of Internal Audit, reported to the Panel at its last meeting, the two actions that were required to be completed, have been introduced – updating the audit intranet pages and the audit manual.

5.2 Internal Audit is continually striving to improve its performance. Developments introduced in the previous year include

- the hosting and development of an extranet service amongst Cambridgeshire authorities
- joint working with the County Council and Cambridge City Council
- the introduction of electronic working papers.

Developments planned for the next 12 months include

- reviewing how individual audit opinions will affect mitigating controls recorded in the risk register
- continuing to investigate the opportunities for joint working

5.3 Internal audit work has been undertaken on behalf of St Neots Town Council during the year and further work has been commissioned by them.