

**INTERNAL AUDIT SERVICE
INTERIM PROGRESS REPORT
(Report by the Audit & Risk Manager)**

1. Purpose

- 1.1 To receive an interim report on the progress made to deliver the 2007/08 annual audit plan and associated performance issues.

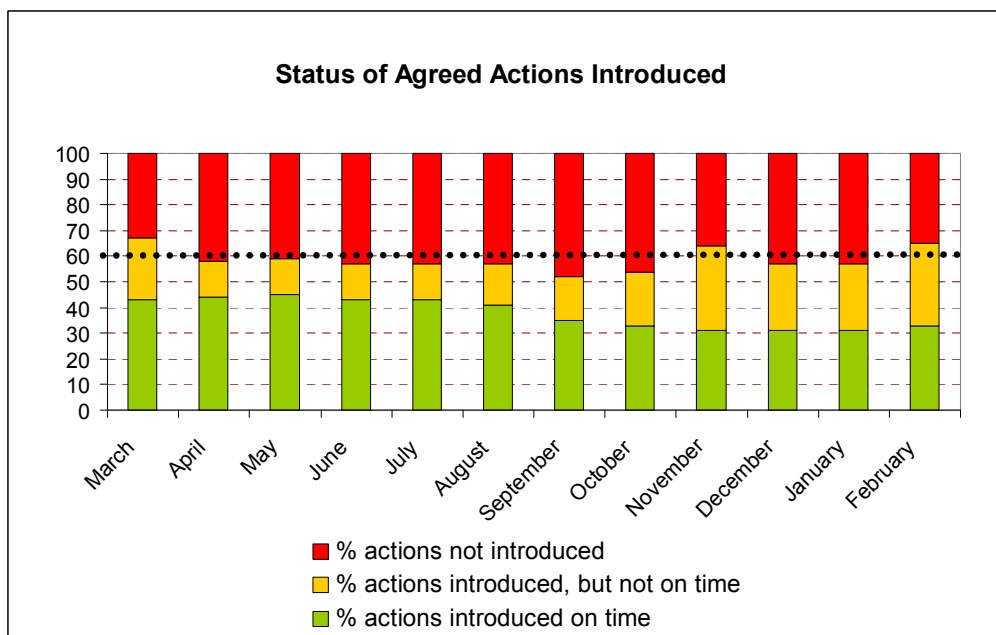
2. Delivery of 2007/08 Audit Plan

- 2.1 The internal audit plan for the 2007/08 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. Three audits were omitted from the original plan, Housing nominations, risk management and electronic payments. These were replaced with reviews of internet use and monitoring and the procurement process followed for the fit out of the new CCTV control room. These changes give a revised audit plan of 43 audits. In addition to the audit plan, work has also been completed on reviewing information received from the national fraud data matching initiative, ethical governance, the preparations for the delivery of services from the new Operations Centre, the management of maternity leave and fidelity guarantee insurance.

- 2.2 It is expected that all 43 audits will be completed. Information in respect of audits completed was last reported to the Panel for the period ending August 2007. Details of all the audits that have been completed, or issued in draft since that date are shown in Annex A. All completed audit reports are available via the internal audit intranet pages.

3. Implementation of Agreed Actions

- 3.1 The performance indicator included in the internal audit service plan, that 60% of agreed actions should be implemented on time has still not been achieved. The target is assessed on a rolling 12 month basis and the graph below illustrates performance from March 2007 to February 2008.



- 3.2 The table above shows that there has been a slight increase in the overall percentage of actions introduced in the 12 month period ending in February, 33% of agreed actions were implemented on time, 32% were late and 35% have not been implemented. The 60% performance indicator has been recently added to each Head of Service's balanced scorecard measures, which are reported to Chief Officers' Management Team quarterly.
- 3.3 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, the low overall level of performance will continue to affect my annual assurance opinion and remain a significant issue in the corporate governance statement. The table at Annex B shows the split between red and amber actions and by Directorate.
- 3.4 Of the actions not yet implemented the 9 detailed in Annex C are red actions that must be implemented to solve major control weaknesses.

4. Internal Audit's Performance

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

5. Recommendation

- 5.1 It is recommended that the Panel note the report.

ACCESS TO INFORMATION ACT 1985

Internal Audit Reports

Internal Audit Performance Management Information

Contact Officer: David Harwood, Audit & Risk Manager ☎ **01480 388115**

**Summary of Internal Audit work undertaken during the period
1 September 2007 to 29 February 2008**

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							
National Non Domestic Rates	✓✓				---	---	
Council Tax	✓✓				---	---	
Housing Benefits ²	✓✓						
Budgetary Control & Management Information		✓			0	2	
Creditors ²		✓			0	2	
Other systems reviews							
Sale and Disposal of Land	✓✓				---	---	
Inspection of Invoices		✓			---	---	
Benefits – National Fraud Initiative		✓			---	---	
Payroll/HR systems		✓			1	9	
Construction Industry Scheme		✓			1	2	
Document Centre: Post & Despatch ²		✓			0	4	1
Concessionary Public Transport Fares		✓			0	6	
Leisure Centres		✓			0	5	
Central Establishment Recharges		✓			0	4	
Electoral Registration			✗		1	5	
Internet Monitoring			✗		1	0	
Controlling Assets ²			✗		0	3	
Management of Trees and Plants ²				✗✗	3	4	
Partnership Working				✗✗	1	1	
Computer Audit							
Virus protection / Spyware		✓			0	3	
Internet monitoring		✓			0	3	3
Business Continuity & Disaster Recovery ²			✗		4	3	

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 29 February 2008.

Two audit reports – Post contract reporting and assessment and Broadband for Members are not listed in the table above. No assurance opinion was given for either of these audits. This is due to the audits finding that no post implementation review process is in place and the lack of clarity over the benefits that are to be gained from investments in new development areas. These issues have been reported upon in previous audit reports. The lack of progress that has been made in these areas will adversely affect my annual assurance opinion.

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

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 29 February 2008**

	Status of Action						TOTAL
	Introduced on time		Introduced Late		Not introduced		
Red Action	8		6		9		23
Amber Action	28		29		29		86
Total	36		35		38		109
% age	33%		32%		35%		
	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	
Central Services	6	11	0	10	8	17	52
Commerce & Technology	1	7	6	15	1	11	41
Operational Services	1	10	0	4	0	1	16
Total	8	28	6	29	9	29	109

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 January 2008, 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 ¹
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. The same arrangements will apply from the Performance Development Reviews being held in May 2008.
Staff Capacity and Performance	Head of Personnel	Local arrangements for the payment of overtime in place within the Operations Division will be reviewed when the Head of Personnel Services reviews part 3, section 2, of the Green Book, in accordance with the national agreement.	30/09/2007	Draft report currently being consulted upon with Operations Division.
Recruitment Advertising	Head of Personnel	Alternative recruitment advertisers will be investigated in order to obtain the best terms and service.	31/07/2007	Investigation completed.
Staff Recruitment	Head of Personnel	A statement of particulars will be issued to the employee within eight weeks of commencing employment.	31/07/2007	System in place.

¹ This is the position as at 29 February.

'Red' Actions Outstanding

Audit	Head of Service	Action Agreed	Agreed Implementation Date	Head of Service's statement re current position ¹
Staff Recruitment	Head of Personnel	All professional qualifications or those that are relevant to the position are to be checked to original certificates. Evidence of the check will be recorded in the employee's personnel file.	30/09/2007	New checklist compiled to commence when recruitment module of Resourcelink HR/Payroll system becomes operational in April 2008.
Staff Recruitment	Head of Personnel	All successful candidates will be checked to ensure that they are allowed to be employed in the United Kingdom.	30/09/2007	System in place.
Asset Register	Head of Financial Services	The Information Manager is to prepare a project/plan to include all of the Authority's assets within the CAPS Uniform system.	30/11/2007	A business case/project plan has been prepared. Discussions to be held with the Head of Financial Services.
Partnership Working	Head of Policy	A Partnership Framework and Guidance document shall be adopted which includes a partnership review process (or Health Check).	29/02/2008	Chief Officers' Management Team have approved a framework and guidance document and review process.
Payroll 2007-08	Head of Financial Services	The Bacstel administration role will be amended to ensure that the payroll manager cannot seal but only sign and send information, and is therefore unable to complete all aspects of the payroll process.	31/01/2008	New provider for Bacstel currently being considered by Financial Services Division. The administration role will change in April 2008 with a change in BACS software.

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 2007 meeting of the Panel.

2. Customer Satisfaction

Target: 85% or more of customers rating service quality as good or better.
Achieved: 12 months to February 2008 - 94%

- 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 18 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 February 2008 – 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 staff's 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 29 February for each of the target areas is shown below.

	<u>Target</u>	<u>29 February</u> <u>2008</u>
Complete audit fieldwork by the date stated on the audit brief	75%	↑ 93%
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%	↑ 85%
Issue final audit report within 5 working days of receiving full response	90%	↓ 80 %
Overall	82%	↑ 85%

4.4 It is disappointing that two of the measures have fallen below the target figure. Whilst meetings are held with customers 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.

4.5 Seven audit reports have been issued outside the 5 working days target. Of these, four have missed the date by three days or less.

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. The audit manual requires further revision, to take account of the use that is now being made of the Anite electronic document system. It is expected that these changes will be completed by the 31 May.

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
- reviewing the fraud risk assessment
- the expansion of the extranet service

5.3 Internal audit work has also continued to be provided to St Neots Town Council.