

**INTERNAL AUDIT SERVICE
ANNUAL REPORT
(Report by the Audit & Risk 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 ending August 2008 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 opinion, shown below, in turn forms part of the overall Statement of Corporate Governance.

It is my opinion, based upon the audit work completed in the 12 month period ending 31 August 2008, 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 2008

4. Delivery of Audit Plan

- 4.1 The Panel will be aware that the audit plan year has been amended, so that it now runs from August to July. This report deals with the audit plans agreed for both the 2007/08 financial year and the period from April to July 2008.
- 4.2 The internal audit plans for the period, approved by the Director of Commerce & Technology, contained 59 audit reviews. The audit plan is not a static document but needs to be amended to reflect changing circumstances. Changes to the plan have been made in the period but this resulted in no overall change to the number of audits undertaken. Audits omitted from the agreed plan were: e-payments, electronic signatures and the housing register and nomination process. These reviews were replaced by ICT Security Policy, ethical governance, CCTV fit out at Eastfield House and internet monitoring.

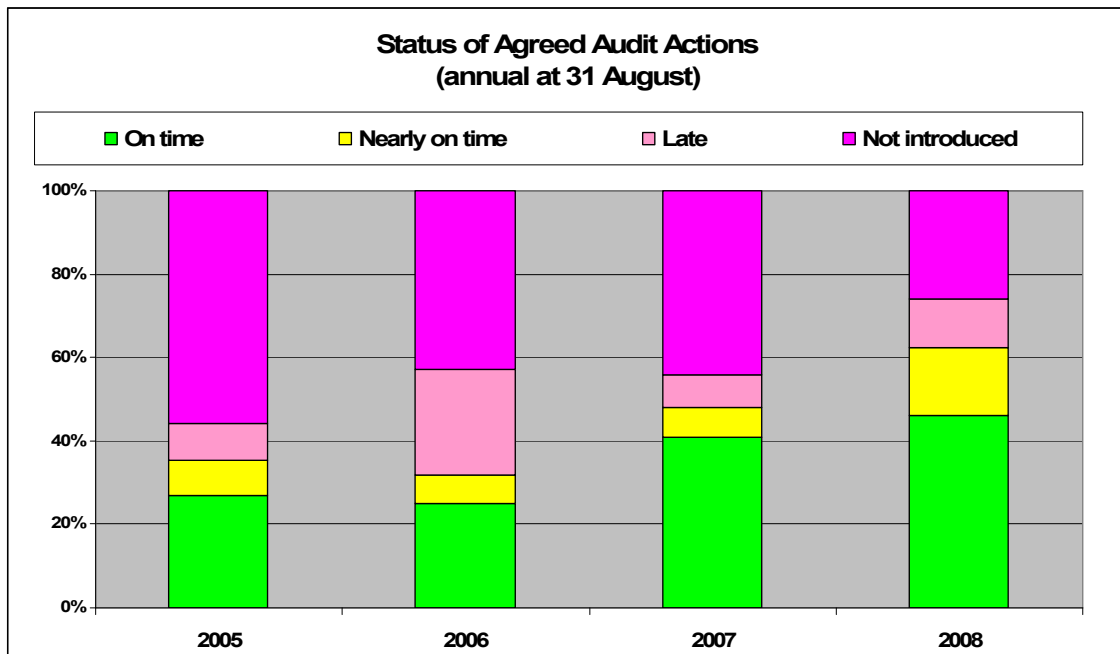
4.3 4 audits that were expected to have been issued in draft, were still underway at the 31 August. This is due to changes to the audit plan period and the annual leave of staff. It is expected that this will be a one off occurrence. Details of the audits completed or issued in draft format and which form the basis for the annual audit opinion are listed in Annex A.

5. Implementation of Agreed Actions

5.1 An on-line database is maintained which holds details of all the actions that have been agreed by service managers together with their intended introduction dates. 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 completed and fully completed.

5.2 A target has been included in the internal audit service plan for 60% of agreed actions should be implemented on time based on a rolling 12 month approach. The target was set to recognise 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.

5.3 The graph below shows how the speed of introduction has improved over the last few years. Whilst the target of 60% introduced on time has not yet been met it is now clear that a significant proportion of items are less than 2 months late. Action will continue to be taken to speed up implementation so that the target can be exceeded.



5.4 Despite this continued improvement, the fact that the performance is still lower than target affects the overall assurance opinion. The table at Annex B shows the actions split between red and amber and by Directorate.

5.5 Red actions are those that need to be implemented as soon as possible in order to solve a major control weakness which is leaving the Council exposed to a high level of risk. There were four of these outstanding at 31 August, one has subsequently been implemented, and details are given in Annex C.

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 2007 to 31 August 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	✓✓						
Cash Income & Receipting	✓✓				---	---	
Budgetary Control & Management Information		✓			0	2	
Creditors		✓			0	2	
Other systems reviews							
Sale and Disposal of Land	✓✓				---	---	
Bailiffs	✓				---	---	
Inspection of Invoices		✓			---	---	
Benefits – National Fraud Initiative		✓			---	---	
CCTV procurement & fit-out, Eastfield House		✓			---	---	
Payroll/HR systems		✓			1	9	
Grounds Maintenance ²		✓			1	5	
Construction Industry Scheme		✓			1	2	
Risk Management Arrangements		✓			1	2	
Concessionary Public Transport Fares		✓			0	6	
Leisure Centres		✓			0	5	
Central Establishment Recharges		✓			0	4	
Document Centre: Post & Despatch		✓			0	4	1
Overview & Scrutiny		✓			0	4	
Vehicle Workshop		✓			0	4	
Equipment Servicing		✓			0	3	
Legal Debt Collection & Recovery		✓			0	2	
Corporate Plan		✓			0	1	
Monitoring of Recruitment to 'High Risk' Posts			x		4	18	
Safeguarding Data			x		3	2	
Electoral Registration			x		1	5	
Management of Ill Health & Sickness			x		1	3	
Internet Monitoring			x		1	0	
Controlling Assets			x		0	3	
Management of Trees and Plants				xx	3	4	
Partnership Working				xx	1	1	
Computer Audit							
Internet Access & Control		✓			0	6	
Sharepoint Content Management		✓			0	3	1
PC Security Controls		✓			0	4	
Virus protection / Spyware		✓			0	3	
Information Security Policy ²		✓			0	14	
Email Controls ²		✓			0	3	
Helpdesk ²		✓			0	1	
Business Continuity & Disaster Recovery ²			x		4	3	
ICT Strategy ²			x		2	4	
Project Management ²			x		1	6	

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 2008.

The Internet Monitoring report, which was completed in January 2008 contained only one red action. This was almost identical to the action that was agreed in November 2005, but not introduced. “There should be a formal [internet usage] review system in place along with prescribed actions to be taken when cases of internet abuse are discovered. Regular reports of ‘Top 20 Users’ should be sent to relevant managers on a monthly basis. These managers should then provide assurance to the Head of HR that the usage is appropriate”.

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 assessment/implementation review process is in place, coupled with the lack of clarity within MTP bids over the benefits that are to be gained from investments. Actions were first agreed in 2002/03 regarding the introduction of a post assessment/implementation process and have subsequently been made on three further occasions. The lack of clarity within MTP bids on the detailed benefits that are to be gained from investments has also been raised previously, actions agreed but not introduced.

Reviews have also been completed into the development of Eastfield House, environmental procurement, ethical governance and land charges.

Work was also undertaken in February, prior to the Assurance Framework being adopted by the Panel in March, which reviewed the Code of Corporate Governance and the evidence available to support the assurance process.

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

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>Little</i>	4	5	Data Consistency Of the 9 actions – it was agreed when the audit was finalised in November 2006 that 4 of the actions had to be introduced 31 October 2008. These are still outstanding. 4 of the remaining actions have been introduced. Until all the actions have been introduced and evidenced, overall assurance will not change.	<i>Little</i>
<i>Little</i>	4	2	Mobile Phones & PDAs All the actions have been introduced	<i>Adequate</i>
<i>Limited</i>	4	8	Personnel – Staff Recruitment Two of the 4 red actions have not been introduced. Of the amber actions, 5 have been fully implemented. The overall assurance opinion has not changed.	<i>Limited</i>
<i>Limited</i>	2	1	Recruitment Advertising One of the red actions remains outstanding. See information in Annex C.	<i>Limited</i>
<i>Limited</i>	1	4	Overtime The red action has been introduced and identified employees who may be in breach of the working time directive. Waiver forms are being obtained. Of the amber actions, only 2 have been introduced.	<i>Limited</i>
<i>Limited</i>	2	8	Uniform Application Review One red action is outstanding This deals with business continuity and disaster recovery planning. It's agreed implementation date has not yet been reached. All the remaining actions have been introduced. Business continuity planning is of such importance that it is not possible to increase the assurance opinion.	<i>Limited</i>
<i>Limited</i>	1	5	Creditors All the actions have been introduced	<i>Adequate</i>
<i>Limited</i>	3	11	Leisure Centres All the actions have been introduced.	<i>Adequate</i>
<i>Limited</i>	2	4	Staff Capacity & Performance With one exception, all the actions have been introduced.	<i>Adequate</i>
<i>Limited</i>	0	8	Balanced Scorecard & Performance Management The actions have been introduced.	<i>Adequate</i>
<i>Limited</i>	1	4	Asset Register The actions have been introduced.	<i>Adequate</i>

REMINDER

Substantial Assurance	✓✓	<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>
Adequate Assurance	✓	<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>
Limited Assurance	✗	<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>
Little Assurance	✗✗	<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 2008**

	Status of Action						TOTAL
	Introduced on time		Introduced Late		Not introduced		
Red Action	7		6		4		17
Amber Action	43		25		24		92
Total	50		31		28		109
% age on time	46%		28%		26%		
	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	
Central Services	6	24	1	9	4	11	55
Commerce & Technology	1	17	5	13	0	13	49
Environmental and Community Services	0	2	0	3	0	0	5
Total	7	43	6	25	4	24	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 August 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 at 31 August 2008

Audit	Head of Service	Audit Finding	Action Agreed	Agreed Implementation Date	Head of Service's statement re current position (10/09/08)
Payroll 2007-08	Ian Leatherbarrow	The Payroll Manager is able to carry out all aspects of the payment process from completing the pay run to arranging and authorising the BACS payment. Adequate separation of duties is therefore not maintained.	The BACSTEL administration role will be amended to ensure that the Payroll Manager cannot seal but only sign and send, and is therefore unable to complete all aspects of the payroll process.	31/01/2008	When new BACSTEL solution is purchased (by mid October), the role of administrator will be the responsibility of the Accountancy Manager who will determine who will take that role.
Recruitment Advertising	Ian Leatherbarrow	Without periodic assessment, long-standing contracts could be renewed automatically without consideration of value for money issues. The Authority could be missing out on cost savings by not looking at other suppliers periodically.	The Authority will investigate other providers of recruitment advertising in order to obtain the best terms and service. Periodic value-for-money reviews will take place every three years and the results analysed.	31/07/2007	An initial review was undertaken earlier this year. Following the completion of the recruitment to the current Director vacancy consideration will be given to joining an ESPO based Cambridgeshire consortium which will deal with the value for money issues. This is likely to be concluded by 31 st March 2009
Staff Recruitment	Ian Leatherbarrow	Appropriate training for conducting interviews has not been received by all interview panellists. The justification for these officers to complete interviews may be challenged by an unsuccessful candidate.	All employees who conduct interviews are to receive equal opportunities and other appropriate interview training.	31/03/2008	A new Recruitment & Selection policy is drafted which will facilitate training of staff undertaking interviews. It is anticipated training will be rolled out on appointment of a new Training Advisor, the implementation date is likely to be 30 th June 2009.
Staff Recruitment	Ian Leatherbarrow	There is no check completed in the majority of cases on the qualifications attained by the successful applicants. Without the relevant qualifications the applicant may be unsuitable for the position.	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	ACTION NOW IMPLEMENTED

Internal Audit Performance

1. External audit view of internal audit

Target: Adequate or better
Achieved: Satisfied

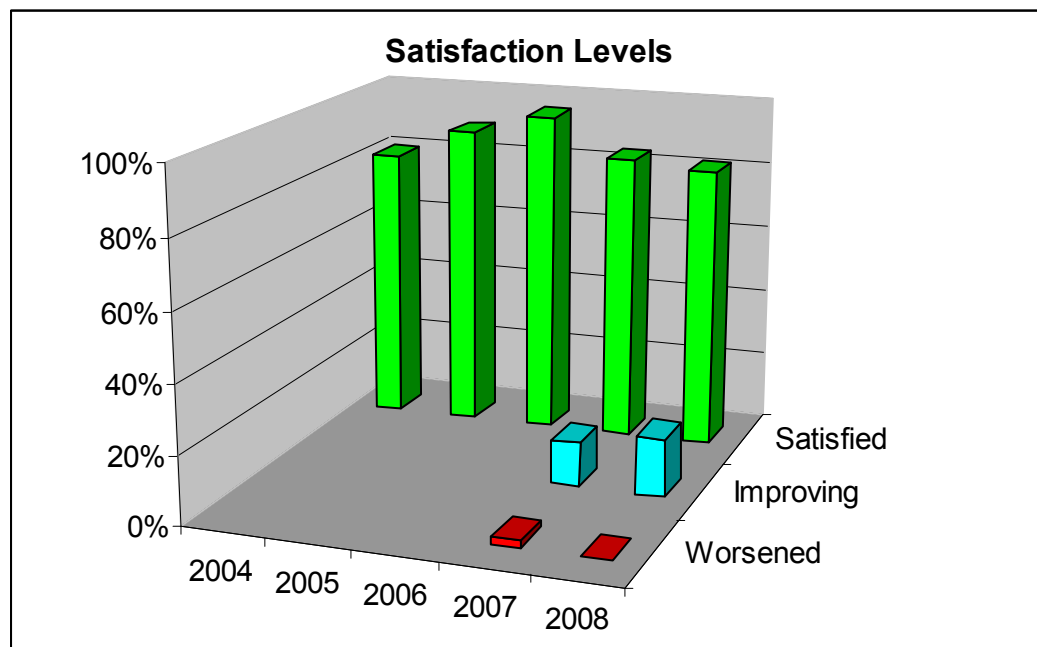
- 1.1 The external auditor continues to be satisfied with the work of the internal audit service, as recognised by his positive endorsement at the July meeting of the Panel.

2. Customer Satisfaction

Target: 85% or more of customers rating service quality as good or better.
Achieved: 12 months to August 2008 - 100%

- 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 21 returns.

- 2.2 The Head of Financial Services has also undertaken his annual customer satisfaction survey with senior managers. Whilst the overall percentage has fallen from 85% to 83%, it still remains high. The value that managers believe that they receive from the service has also risen in the past year.



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 2008 – 77%

- 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>	31 August 2008	
		<i>Incl. Computer Audit</i>	<i>Excl. Computer Audit</i>
Complete audit fieldwork by the date stated on the audit brief	75%	↑ 87%	↑ 85%
Issue draft audit reports within 15 working days of completing fieldwork	90%	↓ 78%	↔ 90%
Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report	75%	↓ 69%	↑ 82%
Issue final audit report within 5 working days of receiving full response	90%	↓ 76%	↑ 91%
Overall	82%	↓ 77%	↑ 87%

- 4.4 It is disappointing that only one of the four targets has been achieved. The falling levels of performance are due to the problems that our computer audit partners are having in finalising reports with colleagues in IMD. These problems are not systematic of failing working relationships, which remain good, but are the result of problems having been encountered in obtaining timely responses to audit reports, due to IMD staff's commitments to the new building projects. This has been recognized in the current years plan, and the computer audit work planned has been timetabled for April 2009 onwards. Closer monitoring of computer audit reports is already being undertaken and it is expected that improvements in performance will be made.

4.5 If computer audits were excluded, all the targets would have been achieved.

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 past year include

- the expansion of the extranet service to Essex authorities
- agreement with CIPFA for publication discounts for extranet users
- updating the risk register with assurance from audit reviews
- external peer review of the service

Staffing issues may mean that few service developments can be considered in the next few months. A period of consolidation is planned. Work is expected to be completed on identifying and assessing fraud risks and the integration of the risk register into mainstream audit work.

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.