

**INTERNAL AUDIT SERVICE:  
ANNUAL AUDIT REPORT  
(Report by the Audit & Risk Manager)**

**1. Purpose**

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

**2. Assurance**

- 2.1 In accordance with the CIPFA Code of Audit Practice for Internal Audit in the United Kingdom, the Internal Audit Manager is required to provide an annual opinion on the overall adequacy and effectiveness of the Council's risk management, control and governance processes (i.e. the system of internal control) based upon the work carried out by the Internal Audit section during the relevant period.
- 2.2 In forming this opinion the assurance given for each audit, together with the review of sample checking of agreed audit actions (that have been marked as being completed in the audit actions database by Heads of Service) are taken into account.

**Audit Opinion**

It is my opinion, based upon the internal audit work completed in the 12 month period ending 31 August 2009, 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 2009

- 2.3 Details of the audit work that support the annual audit opinion are listed in Annex A together with a summary of the significant control issues identified. One of these issues refers to breaches to the Code of Procurement.

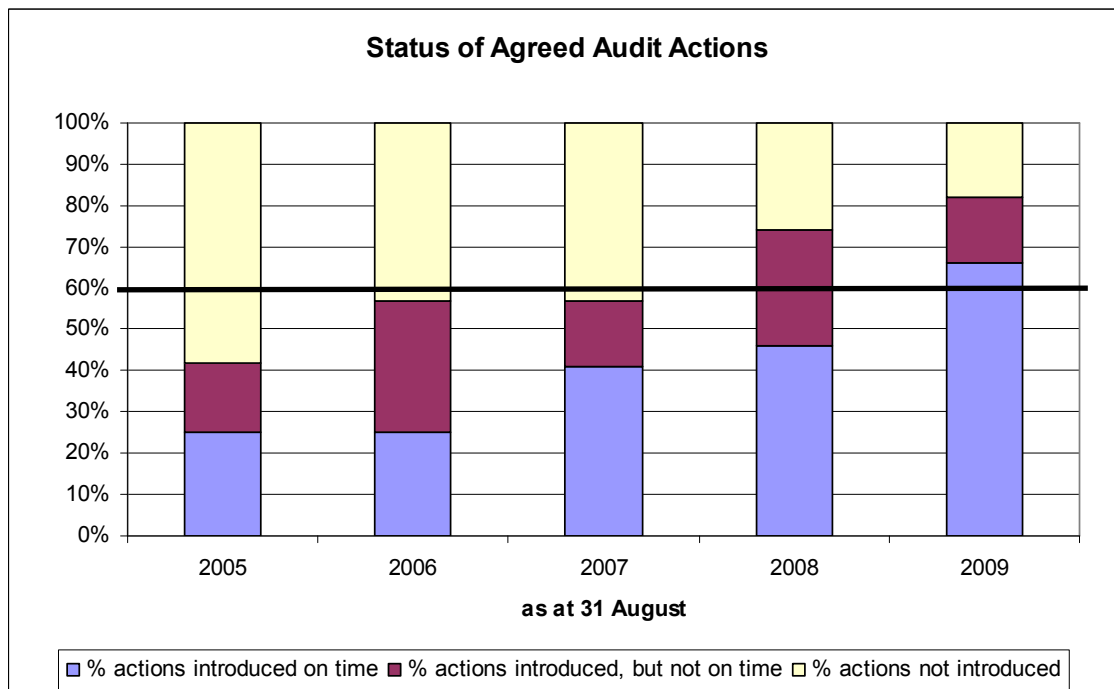
**3. Delivery of Audit Plan**

- 3.1 Internal Audit has had no constraints placed upon them in the way in which they deliver the audit plan; they have been free to determine the review areas and the methodology used.
- 3.2 The internal audit plan, approved by the Director of Commerce & Technology, contained 31 audit reviews. The audit plan is not a static document but needs to

be amended to reflect changing circumstances. A number of changes were made during the year. This resulted in 5 audits being omitted from the plan (local strategic partnerships, purchasing, delivery of the MTP, IT procurement, emergency planning), but replaced by reviews of data loss, employee checks and a number of contract procedure reviews.

#### 4. Implementation of Agreed Actions

- 4.1 An on-line database holds details of all the actions that have been agreed by the service manager as part of an audit 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 or fully completed.
- 4.2 A target has been included in the internal audit service plan that 60% of agreed actions should be implemented on time, based on a rolling 12 month approach. The target recognises that there will be occasions where service issues arise, after the dates for introducing actions had been agreed, that, quite properly, take priority over the introduction of the action.
- 4.3 The issue has previously been highlighted in the Corporate Governance Statement but the graph below shows how the speed of introduction has improved over the last few years and that the target has now been achieved. Annex B provides further detail.



- 4.4 There still remain a number of 'red' actions that have not yet been implemented. Annex C lists the current red actions that must be implemented to solve major control weaknesses.

## **5. Internal Audit's Performance**

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

## **6. Recommendation**

- 6.1 It is recommended that the Panel
- a) note the report;
  - b) ask the Director of Central Services/Commence & Technology to report at the December meeting on the steps taken to ensure that the Code of Procurement is being complied with; and
  - c) consider what action, if any, they wish to take regarding any of the other significant control issues identified in Annex A.

### **ACCESS TO INFORMATION ACT 1985**

Internal Audit Reports

Internal Audit Performance Management Information

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**Summary of Internal Audit Reports issued during the period  
1 September 2008 to 31 August 2009**

Audit area	Level of assurance				Agreed action status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified has been accepted by the Manager <sup>1</sup>
<b>Key Financial Systems</b>							
National Non Domestic Rates	✓✓				---	---	
Council Tax	✓✓				0	1	
Creditors		✓			---	---	
Housing Benefits		✓			0	3	
Debtors		✓			0	6	
Integrated Payroll & HR system		✓			0	6	
Loans & Investments <sup>2</sup>		✓			0	5	
Main Accounting System <sup>2</sup>		✓			0	2	
<b>Other systems reviews</b>							
Payment Cards	✓✓				---	---	
Holiday Leave & Sickness Monitoring	✓✓				---	---	
Commercial Rents & Estate Management	✓✓				0	4	
Choice Based Lettings	✓✓				0	6	
Event Management		✓			---	---	
Site Security		✓			---	---	
IT Application Review – IDOX		✓			0	3	
Equipment Servicing		✓			0	3	
Discretionary Service Charges		✓			0	3	
Historic Building Grants		✓			0	4	
Value Added Tax		✓			0	5	
Leisure Centres		✓			0	10	
Grounds Maintenance		✓			1	5	
Management of Vacancies		✓			2	0	
Income Generation - External Grant Funding			✗		1	5	
Staff Development <sup>2</sup>			✗		1	15	
<b>Computer Audit</b>							
e-payments		✓			1	9	
Email Controls		✓			0	1	
Helpdesk		✓			0	1	
Telecoms/VOiP contract <sup>2</sup>		✓			0	7	
IT Security		✓			0	14	
Project Management			✗		1	5	
ICT Strategy			✗		2	4	
Business Continuity & Disaster Recovery			✗		4	2	
Network Infrastructure <sup>2</sup>			✗		3	13	

<sup>1</sup> 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 any such instances.

<sup>2</sup> Draft report issued as at 31 August 2009.

All the audit reports listed in the table above can be accessed by Members via the Internal Audit intranet site.

## Code of Procurement

There have been a number of occasions during the year where internal audit reviews have identified examples of breaches of the Code of Procurement. These include:

- Non compliance with the EU procurement regulations
- Awarding further jobs to contractors who were initially appointed without competition
- Obtaining only a single tender where competition could have been achieved
- No proper quotation opening records
- Tender evaluation processes not being recorded
- Non-standard contract terms and conditions being used without adequate consideration and challenge
- The appointment of sub-contractors without competition
- Not retaining documentation on which tenders were based and evaluated

The process being used for a contract which was shortly due to be tendered, was found not to be in compliance with the Code. The procedure was stopped and the provisions of the Code applied.

Heads of Service have been asked to self-assess a number of contracts so that the scale of the problem could be quickly identified. This review, which looked at 45 contracts, also identified a number of issues with non compliance of the Code along the lines listed above and these are currently being reviewed – the latest information will be reported to the meeting.

The Code of Procurement is one of the cornerstones of the corporate governance framework. It is reviewed as part of the Constitution and changes to it are considered and discussed by this Panel prior to their recommendation to full Council. Whilst there is no evidence of collusion or wrong doing between contractors and Officers, and non should be implied, the Code exists in part, as mitigation against such a risk.

The Panel should seek reassurance that steps will be taken to improve the level of compliance with the provisions of the Code of Procurement and so it is recommended that the Panel request that the Director of Central Services/Commerce & Technology to report to a future meeting, on the steps that have been taken.

## Data encryption

As previously reported to the Panel, a burglary took place earlier this year at Pathfinder House and 15 laptops were stolen. A review of the circumstances of the theft and the consequences for the Council in respect of data loss has been completed. A report was prepared by the Audit Manager for the Data Protection User Group, which contained a number of recommendations for improving data, information and building security. Whilst the majority of the recommendations have been introduced, one of the most important, regarding the introduction of data encryption is still outstanding.

A pilot encryption project has been carried out in IMD and the Information Manager expects that encryption of laptops will be completed by the end of the month and all portable IT devices will be controlled/encrypted by February 2010. Until encryption has been introduced there remains the risks that personal data may be compromised if a laptop or data stick is lost or stolen. Even with encryption in place, the Council's policy of not storing confidential/personal data on portable IT devices is likely to remain as encryption is not infallible and can be broken given sufficient time.

## Fraud issues

In addition to delivery of the audit plan a number of fraud based reviews have been undertaken – preparing and reviewing information submitted to the national fraud awareness data matching initiative, fraud/ethical awareness survey and fraud risk assessment.

The Council also referred a contract that it awarded to the Office of Government Commerce and Office of Fair Trading as it was felt that pricing collusion may have occurred. These investigations have been finalised but were inconclusive.

A review of the procedures followed for the termination of a contract have also been reviewed. This concluded that the anti-fraud and corruption strategy needs to be amended to allow some discretion to Senior Officers on matters that need to be referred to the Police (subject to them informing the Panel of any matters they decide not to refer). Amendments will be proposed to a future meeting of the Panel.

The Payroll report issued in December 2007 included an agreed action that “following the completion of the updated ‘post to post’ reporting at the end of the financial year by the Head of Service, managers will receive a monthly listing of all employees managed by them, to check and confirm” This action was suggested and agreed following changes to staff absence monitoring. ‘Post to post’ reporting has still to be completed and until it is introduced there remains a fundamental weakness in the payroll process. A review has been completed therefore to verify employees on the payroll.

Guidance has also been provided on an ad-hoc basis on a wide variety of control and fraud issues.

## 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>	1	1	<b>Partnership Working</b> Both actions have been introduced.	<i>Adequate</i>
<i>Little</i>	3	3	<b>Management of Trees &amp; Plants</b> Two of the 3 red actions have been introduced. See information in Annex D re the remaining action. One amber action has not been introduced.	<i>Limited</i>
<i>Limited</i>	4	2	<b>Business Continuity &amp; Disaster Recovery</b> All the actions have been introduced with the exception of one ‘red’ action. See information in Annex D.	<i>Adequate</i>

Original level assurance	Agreed Action Status		Audit area and follow-up findings	'Potential' level of assurance
	Red	Amber		
<i>Limited</i>	3	2	<b>Safeguarding Data</b> All the actions (2 red, one amber) that were required to be introduced by 31 August have been.	<i>Adequate</i>
<i>Limited</i>	2	4	<b>ICT Strategy</b> All 5 actions ( 2 red, 3 amber) required to be introduced by 31 August, have been introduced.	<i>Adequate</i>
<i>Limited</i>	1	6	<b>IT Project Management</b> All 3 actions required to be introduced by 31 August, including the red action, have been introduced.	<i>Adequate</i>
<i>Limited</i>	1	5	<b>Electoral Registration</b> All the actions have been introduced.	<i>Adequate</i>
<i>Limited</i>	1	3	<b>Management of Ill Health &amp; Sickness</b> All the actions (1 red, two amber) that were required to be introduced by 31 August have been.	<i>Adequate</i>
<i>Limited</i>	0	3	<b>Controlling Assets</b> All the actions have been introduced	<i>Adequate</i>
<i>Limited</i>	4	18	<b>Monitoring of Recruitment to 'High Risk' posts</b> Three of the 4 red actions have not been introduced. Of the amber actions, 3 have been fully implemented. The overall assurance opinion has not changed.	<i>Limited</i>
<i>Limited</i>	1	0	<b>Internet Monitoring</b> The red action has not been introduced. See comment below table.	<i>Limited</i>

The 2008 annual report also specifically highlighted two audit areas (Internet Monitoring and Post Contract Reporting) where 'red' actions from previous years audits remained outstanding. No substantive progress has been made in either area.

- Internet Monitoring – audit 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".
- Post Contract Reporting – audit completed in December 2007. The audit found that there was a lack of clarity within MTP bids on the detailed benefits that were expected to be gained from investments and that no post assessment/implementation review process was in place. Actions were first agreed in 2002/03 with regard to the introduction of a post assessment/implementation process and have subsequently been made on three further occasions. The Head of IMD in July 2006 agreed that post implementation reviews would be reported to Project Boards and in addition, where a project is progressed as a result of an MTP bid the post implementation review will also be reported to Heads of Service and, where appropriate, Members.

**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 2009**

	Status of Action						TOTAL
	Introduced on time		Introduced Late		Not introduced		
Red Action	20		0		6		26
Amber Action	78		24		19		121
<b>Total</b>	<b>98</b>		<b>24</b>		<b>25</b>		147
<b>% age</b>	<b>66%</b>		<b>16%</b>		<b>18%</b>		
	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	
Central Services	6	9	0	17	4	4	<b>40</b>
Commerce & Technology	11	57	0	6	1	5	<b>80</b>
Operational Services	3	12	0	1	1	10	<b>27</b>
Total	20	78	0	24	6	19	147

A sample of actions that have been reported as being completed are checked annually to see that the action introduced sufficiently addresses the risk that has been identified.

If during the review of actions introduced it is found that the action taken does not fully deal with the risk then the action that has been taken to address the risk identified is discussed with the appropriate manager and if necessary, changes to the database are made to reflect the actual position.

It is pleasing to report that the review completed this year identified only minor concerns. These have been discussed with the appropriate manager and the database amended as necessary.

**'Red' Actions Outstanding**

Audit	Head of Service	Action Agreed	Agreed Implementation Date	Head of Service's statement re current position <sup>1</sup>
Monitoring of Recruitment to High Risk Posts	Head of People, Performance & Partnerships	A standard framework / approach for risk assessing Council employees will be established. (This will involve the relevant line manager and the Safeguarding Champion, and require the results of the risk assessment to be documented in each case). The results of the risk assessment will inform the programme of CRB checks carried out for staff.	30/04/2009	This is outstanding and has potentially been overtaken/delayed by the introduction of the new vetting and barring scheme.
Monitoring of Recruitment to High Risk Posts	Head of People, Performance & Partnerships	<p>An in-depth risk assessment will be undertaken to identify the depth of CRB checking required for Countryside Centres volunteers, with a view to carrying out checks to the necessary level, where appropriate. Reminders will be issued to all relevant departments and centres highlighting the CRB and Safeguarding policies and their importance etc.</p> <p>A list of all volunteers will be maintained, which includes an assessment of their involvement of working with children and confirmation that CRB clearance has been obtained.</p>	30/06/2009	This is outstanding and has potentially been overtaken/delayed by the introduction of the new vetting and barring scheme.
Business Continuity and Disaster Recovery	Head of Democratic and Central Services	Service Recovery Plan will be updated to reflect the most recent risk assessment conducted. Further work is required on prioritisation of services.	31/12/2008	Work is nearing completion on prioritisation of services. Service Recovery Plan has been updated.

<sup>1</sup> This is the position as at 1 September.

**'Red' Actions Outstanding**

Audit	Head of Service	Action Agreed	Agreed Implementation Date	Head of Service's statement re current position <sup>1</sup>
Management of Trees & Plants	Head of Operations	The Council will not take ownership of any parcel of land until all boundaries have been contractually agreed, along with their maintenance responsibilities and these have been agreed in writing by the Head of Operations (or his designee).	30/04/2009	As part of the adoption procedure, boundary ownerships are checked. Since introduction no sites have come forward for adoption.

## 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.

### 2. Customer Satisfaction

Target: 85% or more of customers rating service quality as good or better.  
Achieved: 12 months to August 2009 - 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 Head of Financial Services has also undertaken his annual customer satisfaction survey with senior managers. The April 2009 figure showed 88% (83% previous year) of managers felt audit provided a good or very good service.

### 3. Introduction of Agreed Actions

- 3.1 See paragraph 4 of the main report.

### 4. Service delivery targets

Target: 80% or more of service delivery targets achieved.  
Achieved: 12 months to August 2009 – 70%

- 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 31 August 2009 for each of the target areas is shown below.

	<u>Target</u>	<u>Overall</u>	<u>Excl. Computer Audit</u>
Complete audit fieldwork by the date stated on the audit brief	75%	↓ 74%	↓ 73%
Issue draft audit reports within 15 working days of completing fieldwork	90%	↓ 64%	↓ 74%
Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report	75%	↓ 64%	↑ 82%
Issue final audit report within 5 working days of receiving full response	90%	↓ 81%	↑ 100%
Overall	80%	↓ 70%	↑ 82%

4.4 The overall service delivery targets include all audit reviews undertaken by both internal audit staff and the external computer auditors. The non achievement of the targets is disappointing. The reasons why the targets have not been achieved by the computer auditors is known and steps have been taken to improve performance over the next 12 months.