CORPORATE GOVERNANCE PANEL   28 MARCH 2012

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

1.   Purpose

1.1   To receive an interim report covering the period August 2011 to February 2012, on the progress made to deliver the annual audit plan for the period ending July 2012 and associated performance issues.

2.   Delivery of 2011/12 Audit Plan

2.1   Members will recall that the audit year runs from August to July to fit more closely with the governance reporting year and the Panel receives the proposed audit plan at its June meeting. The 2011/12 audit plan, excluding IT audit, contained 28 audit reviews.

2.2   As is the norm, a number of changes have been made to the plan to take account of changing circumstances within services and responding to requests for advice and assistance. Consequentially the following amendments to the audit plan have been made:

Omissions	Days	Reasoning
Internet use & monitoring	10	New firewall to be implemented towards latter part of audit year. Expectation that review will be included in 2012/13 audit plan.
Staff recruitment	10	Removed due to drop in recruitment and the likelihood of major service changes during the 2012/13 financial year.
Legal debt collection & recovery	8	Postponed to 2012/13 audit plan year at the request of the Head of Service because of restructuring and an unavoidable delay in filling the new post.
Repairs & maintenance of property	6	Following initial planning meeting, decision to postpone review taken by Internal Audit Manager due to services updating current IT systems to enable appropriate data to be recorded.
Additions		
Voluntary redundancy	10	Review of pay calculations and management considerations that supported voluntary redundancy of employees.
Monitoring of abuse emails	3	Review of action taken to deal with emails forwarded by employees to the Abuse email box.
HR & Payroll follow-up review & payments in lieu of worked hours	5	Due to likelihood of major service changes during 2011/12 financial year, a follow-up review of previously agreed audit actions was undertaken.
	10	This identified a number of issues, consequently a separate audit on salary payments in lieu of worked hours has commenced.

2.3 Details of all the audits that have been issued in the reporting period are shown in Annex A. All completed audit reports are available via the internal audit intranet pages.

Revisions to the plan noted above, have resulted in the audit plan remaining unchanged at 28 audits. As at the 28 February, 9 reviews have been the completed or reports issued and a further 9 reviews were underway. Accepting that no unforeseen events occur it is anticipated that the full audit plan will be delivered.

2.4 The Internal Audit & Risk Manager has had no constraints placed upon him in respect of determining overall audit coverage, audit methodology, the delivery of the audit plan or proposing actions for improvement or forming opinions on individual audit reports issued.

3. IT audit coverage

3.1 Due to the specialist nature of IT audit, it is delivered by an external provider who is appointed following a competitive tendering process. The contract for the service ended in June 2011. Whilst discussions had taken place with neighbouring authorities over a number of months both prior to and after June to undertake a joint tendering exercise, these authorities took the decision in August not to proceed along this route.

3.2 The size of the IT audit contract is such that it was required to be let in accordance with EU rules. This would have taken a minimum of 10 weeks and required the preparation of detailed tender documents etc. A decision was therefore taken to procure via the London Audit & Anti-Fraud Partnership contract, which had been let in accordance with EU rules. This contact, which runs until March 2014, had been awarded to Deloitte's.

3.3 The IT audit plan has been agreed and is listed in Annex B for information.

4. Implementation of Agreed Actions

4.1 The Management Team have set a target of 60% of agreed actions should be implemented on time, based on a rolling 12 month period. Performance is reported to the Management Team each quarter. For the year ending February 2012 the figure achieved was only 53 %.

4.2 The table at Annex C shows the split between red and amber actions and by Head of Service.

5. **Internal Audit's Performance**

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

6. **Recommendation**

6.1 It is recommended that the Panel note the report.

ACCESS TO INFORMATION ACT 1985
Internal audit reports
Audit actions database
Internal audit performance management information

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**Summary of Internal Audit Reports issued during the period
1 August 2011 to 29 February 2012**

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							
Council Tax - continuous monitoring	----	---	---	----			
Accounts Payable standing data			✘		0	1	
Other systems reviews							
Staff Travel and Subsistence	✔✔				0	1	
Corporate Governance Arrangements		✔			---	---	
National & Local Performance Indicators		✔			1	0	1 - red
Countryside Services Visitor Centre		✔			0	2	
Land Charges		✔			0	3	
Delivering the web strategy		✔			0	5	
Monitoring of Abuse emails			✘		0	1	
Computer Audit							
Application review : ResourceLink		✔			0	3	
DR, Backup & server room controls		✔			0	4	
Business Continuity Planning [2]			✘		2	0	

[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 any such instances.
[2] Draft or final report issued as at 29 February 2012.

In addition to the reviews listed above, internal audit have also been involved in a number of other initiatives and reviews. These include reviewing the output from the National Fraud Initiative (reported to Panel in December) , managing whistleblowing allegations, reviewing the IT usage documents in respect of non-HDC employees accessing the IT network under shared service arrangements, advising on controls with regard to the Home Improvement Agency shared service and considering the assurance provisions required for the Panel with regard to the potential for a shared HR & Payroll service. Guidance has also been provided on a wide variety of control and fraud issues.

The audits have also identified a number of efficiency savings which difficult to quantify in financial terms have led to improvements in processes.

Issued identified from previous reports

Previous reports to the Panel have identified a number of issues of concern. A review of these has been undertaken and current progress is detailed below.

Code of Procurement

There are still breaches taking place with regard to receiving and opening tenders and quotations. Changes are being proposed to the Code of Procurement so that Heads of Service have to advise the Internal Audit & Risk Manager of the time for the opening of quotations. A member of Internal Audit will occasionally attend the quotation openings to ensure that the Code is being complied with. This procedure change should ensure that no tenders or quotations are opened incorrectly and reduce further the opportunity for fraud or error to occur.

Establishment Control

Ensuring the accuracy of the payroll to reduce the opportunity for fraud is a key control. Following a number of delays, in September 2011 reports were sent to Heads of Service listing employees within their services and requesting positive confirmation that the reports were correct. It is disappointing to note that not all Heads of Service confirmed that the establishment in their service area was correct. A further report is due to be issued next month.

Internet Monitoring

Since January 2008 and possibly earlier, there has been no regular monitoring of employee's use of the internet. This is partially due to staffing issues in HR and the poor quality monitoring reports available from our current software. One manager has raised their concerns about the lack of robust monitoring on a number of occasions and the lack of useful evidence that would allow then to identify cases of internet abuse and take appropriate disciplinary action. A replacement product is due to be installed which will allow detailed reports to be prepared and monitoring undertaken.

An audit review of this area was planned for the current year but has been postponed until the software has been installed and is working effectively.

Business Continuity

Last September, I raised a concern about the lack of an up to date business continuity plan being sufficiently serious so as warrant inclusion in the annual governance statement.

A report elsewhere on the agenda (Progress report on issues identified in the Annual Governance Statement) refers to progress that has been made with addressing the concerns raised. It is intend that a revised Business Continuity plan will be agreed by August 2012.

LEVELS OF ASSURANCE - DEFINITIONS

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	✘✘	*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 meetings its objectives.*

Audit Plan 2011/12
Computer audit provision

Virtualisation and Network Infrastructure: C Hall

The Council is moving its server farm onto virtual servers. This review will examine the adequacy and effectiveness of the key controls relating to the Server Virtualisation and VMware environment by assessment of the following areas:
- Governance Strategy and Risk Management
- Resilience
- Security Settings
- Capacity Management and Administration

In order for the Virtual Environment to be effective there also needs to be strong management of a secure Network Infrastructure, therefore as part of this audit will also examine the adequacy and effectiveness of the key controls relating to the Network Infrastructure by assessment of the following areas:
- Logical access
- Network support
- Network monitoring
- Network Strategy
- Network device security
- Remote access security
- Firewalls

**Community Infrastructure Levy (CIL) SharePoint application:** C Hall

In order to manage the collection of CIL a SharePoint based software application has been developed. There is an expectation that this system will be marketed to other authorities. The review will cover access controls, data input, data processing, data output, interfaces, management trails, backup and support maintenance.

Penetration Testing: C Hall

The Council is wholly reliant on its IT network and infrastructure in the delivery of its services. This review, using a number of attack and penetration techniques will simulate attacks from external and internal malicious users, seeking to identify vulnerabilities and weaknesses within the internal IT infrastructure. A review of this kind was last conducted in 2004.

Implementation of Agreed Actions
Summary of the Actions Database as at 29 February 2012

Status of Action				
	Introduced on time	Introduced Late	Not introduced	**TOTAL**
Red Action	0	1	5	6
Amber Action	43	8	24	75
Total	**43**	**9**	**29**	81
% age	**53%**	**11%**	**36%**	
Head of Service	Red Amber	Red Amber	Red Amber	
Financial Services	0 19	1 0	5 10	**35**
Info Management Division	0 1	0 0	0 2	**3**
Operations	0 7	0 2	0 2	**11**
Environ & Comm Health	0 2	0 0	0 0	**2**
Housing	0 3	0 0	0 0	**3**
Law & Democratic Services	0 4	0 2	0 0	**6**
Corporate Team	0 2	0 2	0 6	**10**
General Manager, Leisure	0 2	0 0	0 4	**6**
Customer Services	0 3	0 1	0 0	**4**
Planning Services	0 0	0 1	0 0	**1**
Total	0 43	1 8	5 24	**81**
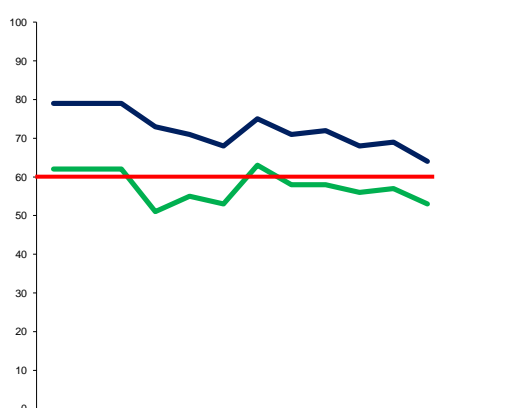
The chart shows actual performance for the year ending February 2012.

Red line = 60% target

Blue = %age actions introduced both on time and late

Green = %age of actions introduced on time

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.

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.

The next follow up review of agreed audit actions is planned to be undertaken in the quarter ending July 2012. The findings from this review will be taken into account when the annual assurance opinion is formulated.

Internal Audit Performance

1.   External audit view of internal audit

Target: Adequate or better.
Achieved: No view expressed.

The Council's external auditors, PriceWaterhouseCoopers, have requested sight of a number of internal audit reports on key financial systems to gain an understanding of the internal control framework. As 2010/11 is there first year of appointment, they have undertaken their own tests on key controls within the financial systems and as such have not yet had cause to place any reliance on the work of internal audit for their work.

2.   Customer Satisfaction

Target: 85% or more of auditees rating service quality as good or better.
Achieved: 12 months to February 2012 - 100% (from 12 responses)

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 – very good, good, acceptable, requires improvement or unacceptable. Target information is calculated on a rolling twelve month basis rather than by financial year.

The Head of Financial Services annual customer satisfaction survey is due to be conducted in the next month. The results will be reported to the September meeting.

3.   Introduction of Agreed Actions

See paragraph 4 of the main report.

4.   Service delivery targets

Target: 80% or more of service delivery targets achieved.
Achieved: 12 months to February 2012 – 75% (83% excl. IT reviews)

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

Performance indicators are prepared monthly. The targets are also reflected in staff's key performance development targets within the annual appraisal process.

It is disappointing that the 80% target has not been achieved overall. It is evident from a review of the data that supports the target that the move towards part-time working has affected the ability of staff to meet deadlines, particularly around the area of completion of the fieldwork. There have also been delays in the response to IT related audit reports which have affected the figure. This area will continue to be closely monitored with the aim of improving performance.

5.   Service Developments

5.1   The following developments are planned for the next six months
- Continue with the innovative approach to continuous auditing
- Undergo an external assessment against the Cipfa Code of Audit Practice
- Deliver changes within the action plan arising from the 2011 review of the internal audit service
- Review internal audits own performance indicators to ensure that they remain fit for purpose.