

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

1. INTRODUCTION

- 1.1 This is the annual report of the Internal Audit Manager as required by the Public Sector Internal Audit Standards (PSIAS). It covers the period 1 August 2012 to 30 June 2013.
- 1.2 The report includes the Internal Audit Manager's annual opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes.

The opinion is based upon

- the work carried out by Internal Audit during the year; and
- the assurances made available by external assessors and similar providers.

- 1.3 The report also provides information on:
- the delivery of the annual audit plan;
 - audit reports issued and issues of concern;
 - implementation of agreed actions; and
 - Internal Audit's performance.

2. OVERALL OPINION**Audit Opinion**

Based upon work undertaken and statements from external assurance providers, it is my opinion that the Council's internal control environment and systems of internal control as at 30 June 2013 provide limited assurance over key business processes and financial systems.

David Harwood
Internal Audit Manager

July 2013

***Definition of Limited** : There are weaknesses in the level of internal control for managing the material inherent risks within the internal control environment. The control failings identified from the evaluation and testing of individual systems show that the internal control environment 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.*

- 2.1 The audit opinion has been given as at 30 June 2013 to reflect the current state of the internal control environment and systems of internal control (definition in Annex C) across the Council and provide the Panel with a timely opinion for inclusion in the draft annual governance statement. If significant changes occur to the internal control

environment prior to the Panel approving the annual governance statement in September, the Panel will be informed.

- 2.2 During the reporting period it should be noted that:
- One 'no' assurance and seven 'limited' assurance opinions were issued.
 - Significant failings in procurement practices have been identified.
 - Key financial systems have 'adequate' assurance.
 - The overall number of internal audit actions suggested and accepted by Managers for the period ending 30 June 2013 has reduced from 75 in 2012 to 58 in 2013.
 - The implementation rate of agreed actions has increased.
- 2.3 The report also provides information on:
- the delivery of the annual audit plan;
 - audit reports issued and issues of concern;
 - implementation of agreed actions; and
 - Internal Audit's performance.
- 2.4 Assurance from external sources that impacts upon the internal control environment and systems of internal control is detailed at Annex A. No serious control weaknesses have been identified in those reports.
- 2.5 The Internal Audit Manager reports functionally to the Corporate Governance Panel and maintains organisational independence. He 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. DELIVERY OF AUDIT PLAN

- 3.1 The Internal Audit Plan was approved by Management Team and the Corporate Governance Panel in June 2012 in respect of the year ending July 2013.

Due to the introduction of the Public Sector Internal Audit Standards and Panel's wish to consider a draft annual governance statement at their July meeting, the decision was taken to revert the internal audit plan back to the financial year. Consequently the audit plan agreed in June 2012 has not been delivered in full but has been reviewed and recast. This approach was agreed by the Corporate Governance Panel in March 2013 when they also approved the internal audit plan and quarterly planning process for 2013/14.

Internal Audit Reports issued

- 3.2 The audit reports issued (draft/final or closed) during the period 1 August 2012 to 30 June 2013, the assurance opinion and number of agreed (or proposed) actions are listed in the table below. All the reports can be accessed via the Internal Audit intranet pages.

Audit area	Level of assurance				Agreed action status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified has been accepted by the Manager ¹
Housing benefits: Verifying information	✓✓				0	0	
Major incident planning	✓✓				0	0	
Legal debt collection & recovery	✓✓				0	0	
Provision of legal advice	✓✓				0	0	
Housing: Choice-based lettings	✓✓				0	3	
Payroll: Payments & reconciliations	✓✓				0	3	
Facilities management		✓			1	3	
New homes bonus grant		✓			0	3	
Payroll: Variations to Pay		✓			0	3	
Housing benefits: e-forms		✓			0	3	
Payroll: Variations to pay		✓			0	1	
Voluntary redundancy		✓			0	0	
Registration of interests		✓			0	0	
Call Centre (draft)		✓			0	0	
One Leisure: Café Zest (draft)			x		3	5	
Robustness of budget savings			x		2	3	
Post-implementation reviews			x		2	0	
Contract management			x		1	4	
E-marketplace			x		0	4	
External funding/grants (draft)			x		0	4	
Mobile & office telephone use			x		0	3	
One Leisure: Pure spa				xx	7	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 any such instances.

3.3 In addition to the reports listed above, a substantial amount of work has been undertaken in the following areas:

- 2011/12 final accounts process
- Re-development of One Leisure St. Ives
- Licensing & Community Safety
- Penetration Testing

No assurance opinions were given on these pieces of work as they were either reported to Panel separately, subsumed into other work areas or developed into consultancy type reviews.

- 3.4 The Licensing and Community Safety review examined the arrangements operating between Licensing, Community Safety and the Police that allowed for anti-social behaviour and crime and disorder to be addressed. Two actions were agreed that have resulted in the greater sharing of information/intelligence and an inspection programme being introduced.
- 3.5 Penetration testing of internet facing systems was undertaken to provide an assessment of the logical security controls supporting the network infrastructure. Whilst a number of weaknesses were identified, these are not considered business critical.
- 3.6 A review of the software developed by the Information Management Division to manage the community infrastructure levy was also undertaken and a draft report issued. Subsequently, a decision was taken to purchase commercial software. The audit was closed as it was no longer appropriate.
- 3.7 The continuous auditing of key controls within main financial systems has been introduced. Summary details are shown in the table below.

Audit area	Level of assurance				Agreed action status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified has been accepted by the Manager ¹
Council Tax		✓			0	0	
Main Accounting System		✓			0	2	
Accounts Payable (Creditors)		✓			0	0	
Accounts Receivable (Debtors)		✓			0	4	

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.

- 3.8 Internal audit have also undertaken work in a number of other areas. These include:

- Review of the Council Tax support scheme
- Management of the commercial estate
- Contract review of the Planning Services Framework
- Two employee investigations
- Responding to whistleblowing allegations
- Consideration of the national fraud initiative data received in February 2013
- Payment procedure for the 2nd green bin initiative
- Payments hub system replacement

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

4. ISSUES OF CONCERN CONTRIBUTING TO THE LIMITED ASSURANCE OPINION

One Leisure – Pure and Café Zest

- 4.1 The reviews of the management of the Pure spa and therapy facilities and Café Zest identified similar types of control failings. These included inconsistent operations across the Centres, the lack of formal business plans, strategies and targets. Little management review or monitoring is performed. Stock controls are weak and inconsistent. Pricing and discount arrangements are not sufficiently controlled.

Post Implementation Reviews

- 4.2 There is infrequent, formal challenge or consideration of the value for money aspects of completed projects. The prime emphasis has tended to be on project budget approval with less concern on demonstrating improved service outcomes.

Code of Procurement

- 4.3 Compliance with the Code of Procurement remains an issue. Failings have been identified in contract management procedures, the lack of expertise available within the Council in certain areas and the need to use contractors to provide guidance which has resulted in close professional relationships developing, over familiarity and conflicts of interest.

Limited amount of IT audit coverage

- 4.4 Computer audit coverage for the period ending March 2014 was considered by the Panel in December 2012.
- 4.5 The number of computer audit reviews completed during the period is of concern. My annual report for 2012 only listed two reviews, this year only one audit (penetration testing) has been completed. Staff within the Information Management Division are managing a large number of projects and have been unable to meet with the auditors to allow the reviews to commence. Whilst this has been accepted, it has meant that no assurance can be given on the application of controls within this key area.

5. ISSUES OF CONCERN FROM PREVIOUS REPORTS

Data Protection

- 5.1 Reference was made in the 2012 report to County Council employees (LGSS) transferring via email, confidential information to the County Council computer system in order to improve their workflow/efficiency. The risks associated with this were accepted by the former Managing Director (Resources). Changes have recently been made to workflow arrangements with the result that LGSS staff now access data securely.

Establishment Control

- 5.2 Ensuring the accuracy of the payroll to reduce the opportunity for fraud is a key control. Reports have not been sent every six months to Heads of Service listing employees within their services and requesting positive confirmation that the reports were correct. At the time of writing this report, the information in respect of the period ending June 2013 was due to be issued.

Issues outstanding from previous years

- 5.3 Audit reviews that have had either an assurance opinion of 'limited' or 'little' in previous years 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		
2011-12				
Limited	2	0	Business Continuity Planning Both actions have been introduced.	Adequate
2010-11				
Little	4	4	Supermarket car park income agreements 3 of the 4 actions have been introduced. It has been agreed that the action relating to contractual agreements will not be pursued.	Adequate

Assurance definitions are included in Annex C.

6. IMPLEMENTATION OF AGREED ACTIONS

6.1 Management Team have set a target of 60% of agreed actions being implemented on time, based on a rolling 12 month timeframe. The figures for the year ending 30 June 2013 are shown below. The 60% target has been exceeded since January 2013.

Status of Action							
	Introduced on time		Introduced Late		Not introduced		TOTAL
Red Action	10		0		0		10
Amber Action	27		2		7		36
Total	37		2		7		46
% age	80%		5%		15%		
Head of Service	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	
Financial Services		2		0		0	2
Law & Democratic Services		3		0		0	3
Operations		3		0		0	3
Corporate Team		0		0		5	5
Information Management	2	5		0		0	7
General Mgr, One Leisure	7	8		2		0	17
Environmental Management	1	3		0		2	6
Environmental Health		0		0		0	0
Customer Services		3		0		0	3
Total	10	27	0	2	0	7	46

6.2 A sample of actions that Managers report as being completed have been checked throughout the year to see that the action introduced sufficiently deals with the risk that has been identified. The table below summarises the work done during the year ending 31 March 2013.

		Red	Amber	Total
Follow up status	Accepted and closed	3	19	22
	Disputed, partially met	3	2	5

6.3 If during the review of actions introduced it is found that the action taken by a manager does not fully deliver against the agreed action, the matter

is discussed with the manager and if necessary, changes to the database are made to reflect the actual position. There are five disputed actions that fall into this category.

7. INTERNAL AUDIT PERFORMANCE

- 7.1 Internal Audit have undertaken a self-assessment review against the Public Sector Internal Audit Standards. The outcomes of the review were reported to the Corporate Governance Panel in May 2013. The internal audit service does not fully conform to the Standards and the Panel considered that the areas of non-conformance were not significant enough to be included in the annual governance statement.
- 7.2 A quality assurance and improvement programme has not yet been formally developed as required by the Standards. Details of this and other developments planned during 2013/14 are listed in Annex B together with information regarding the performance of internal audit during 2012/13 and service developments that have taken place.

8. RECOMMENDATION

It is recommended that the Panel note the report and take into account the Internal Audit Manager's opinion when considering the Corporate Governance statement.

ACCESS TO INFORMATION ACT 1985

Internal Audit Reports

Internal Audit Performance Management Information

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EXTERNAL ASSURANCE RECEIVED

Date	Report from	Area covered	Assessment
March 2012	Interception of Communications Commissioner's Office	Compliance with the requirements of the Regulation of Investigatory Powers Act 2000.	The Council has a satisfactory level of compliance with the Act and Code of Practice.
June 2012	Local Government Ombudsman	Complaints made to the Ombudsman for 2011/12.	"I am pleased to say that I have no concerns about your authority's response times and there are no issues arising from the complaints that I want to bring to your attention".
December 2012 March 2013	External Auditor (PricewaterhouseCoopers)	Final Accounts 2011/12 Grant Certification Report	Unqualified accounts. 2 grants certified: Housing and Council Tax benefits subsidy grant qualified. National Non Domestic Rates return not qualified.
March 2013	EMQC (on behalf of the Dept for Business Innovation & Skills)	Customer Service Excellence – (previously Charter Marks) Customer Service and Call Centre.	Fully meets the requirements to allow maintenance of the Customer Service Excellence Standard Certification.
March 2013	Electoral Commission	Review of performance standards for Electoral registration Officers	The standards have been met.

INTERNAL AUDIT PERFORMANCE

Customer Satisfaction

Target: 85% or more of customers rating service quality as good or better.
 Achieved: 12 months to June 2013 – 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 improvements or unacceptable. 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 2013 figure showed 85% (78% previous year) of managers felt audit provided a good or very good service. No respondent considered the service required improvement or was unacceptable.

Service delivery targets

Target: The service delivery targets are achieved.

There are four elements to this target which all relate to the progress of individual audits and the reporting process.

Since all three auditors have become part-time it has become clear that they do not have the same degree of flexibility to manage meeting dates as they did when working full-time. It is the intention to keep the same targets. They are challenging but should be seen as aspirational. Keeping them does provide a target and benchmark of trends.

	Target	Achieved	
		@ August 2012	@ June 2013
a) Complete audit fieldwork by the date stated on the audit brief	75%	75%	71%
b) Issue draft audit reports within 15 working days of completing fieldwork	90%	45%	75%
c) Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report	75%	75%	64%
d) Issue final audit report within 5 working days of receiving full response	90%	92%	92%

INTERNAL AUDIT PERFORMANCE

Target (c) shows the lowest level of achievement. Non-achievement is due to the time taken to obtain a formal response to the draft report from a manager. A separate target, for internal use only, records the length of time an auditor takes to meet with the manager to discuss the draft report. This shows that 89% of meetings were held in 15 days. It is the expectation that managers will respond formally to the draft report during the meeting, but they are now wanting to reply more formally, which means the 15 day target is not met.

Service Developments

The following service developments have taken place:

- The continuous audit process has been successfully introduced.
- A self-assessment review of the Internal Audit Service against “proper practice” provisions of the Public Sector Internal Audit Standards showed that the service generally conforms with those Standards and an action plan has been prepared to address the non-compliance (confirmed as only minor in nature).
- The internal audit strategy and terms of reference (audit charter) has been revised to take account of the Public Sector Internal Audit Standards.

A number of developments are expected during the next year. These include:

- Formally introducing a quality assurance and improvement programme.
- Introducing business rates into the continuous audit process and examining the opportunities from the use of automated software.
- Reviewing the wider role of the Internal Audit Manager across the Council against the Cipfa publication “The role of the head of internal audit in public sector service organisations”.
- The Head of Welland Internal Audit Consortium undertaking a peer review of the service, the results of which will be reported to the Panel.

DEFINITIONS USED IN THE REPORT

Assurance definitions: for information

Substantial Assurance	✓✓	<p><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></p>
Adequate Assurance	✓	<p><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></p>
Limited Assurance	✗	<p><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></p>
Little Assurance	✗✗	<p><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></p>

Internal control environment:

The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- establishing and monitoring the achievement of the organisation's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which its

DEFINITIONS USED IN THE REPORT

functions are exercised, having regard to a combination of economy, efficiency and effectiveness

- the financial management of the organisation and the reporting of financial management
- the performance management of the organisation and the reporting of performance management

System of internal control

A term to describe the totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.