

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Internal Audit Service: Interim Progress Report
Meeting/Date:	Corporate Governance Panel – 29 January 2014
Executive Portfolio:	Resources: Councillor J A Gray
Report by:	Internal Audit & Risk Manager
Ward(s) affected:	All Wards

Executive Summary

The report details the work completed by the Internal Audit Service during the period April to December 2013 and associated performance issues.

During the reporting period it should be noted that:

- One 'little' assurance and five 'limited' assurance opinions were issued.
- The continuous audit approach to key financial systems has proved successful and is to continue.
- 72% of agreed internal audit actions (target 100%) for the year ending 31 December 2013 were introduced on time.

The computer audit contract with Deloitte's is to be extended until the 31 January 2015.

The Internal Audit & Risk Manager continues to report 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.

Financial & Legal implications

There are no financial or legal implications arising from this report.

Recommendation:

It is recommended that the Panel note the report.

1. Delivery of the 2013/14 Audit Plan

1.1 Panel approved the internal audit plan (consisting of 34 reviews and 5 continuous audit areas) at its March 2013 meeting. The Panel agreed that the audit plan should be more dynamic than in previous years and that a trial should be undertaken on refreshing the plan quarterly, to allow for changing circumstances (risks, operations, programs, systems and controls) to be taken into account.

1.2 A substantial amount of unplanned time was spent, and is continuing to be spent on dealing with the One Leisure St Ives redevelopment. To account for this, three audits were removed from the plan - LGSS contract management, the delivery of the leadership objectives and performance management.

The external auditor completed work earlier this year on the value for money aspect of the LGSS contract, and touched in part upon contract management. The development of service plans and the related performance management systems that underpin the leadership objectives is expected to be in place by April 2014. It is the intention that all three reviews will be undertaken during the 2014/15 plan year.

1.3 As at the 31 December, 32 reviews are anticipated to be completed by 31 March 2014. 23 reviews have been completed or are substantially underway.

1.4 Current indications are that two of the remaining audits planned for this year (email monitoring and e-recruitment) may need to be delayed due to significant IT system/procedure changes being introduced. If that is the case, then further contract related reviews are likely to be substituted.

1.5 Details of all the audits that have been issued in the reporting period are shown in Appendix A. All completed audit reports are available via the internal audit intranet pages. At the request of the Panel, audit reports have also been circulated to all Panel Members. The first set of reports were circulated in December.

2. IT Audit Coverage

2.1 Due to the specialist nature of IT audit, it is delivered under contract by Deloitte & Touche Public Sector Internal Audit (Deloitte's PSIAS). The Council have been informed that Deloitte's PSIAS is to be sold to Mazars LLP, with the sale due to be completed on the 31 January. Mazars LLP have indicated that there will be no changes to the audit team who undertake the IT audit work.

2.2. Prior to being informed of the sale, a decision was taken that the current contract with Deloitte's PSIAS, which was coming to the end of its initial two year period, would be extended until 31 January 2015. The extension option was preferred to the re-tendering of the contract as this would allow for the future governance and internal audit arrangements arising

from the potential out-sourcing of IMD to be clarified and agreed. A decision on IT audit coverage from 2015/16 onwards will then be made. The Panel will be kept informed of the decisions that are taken.

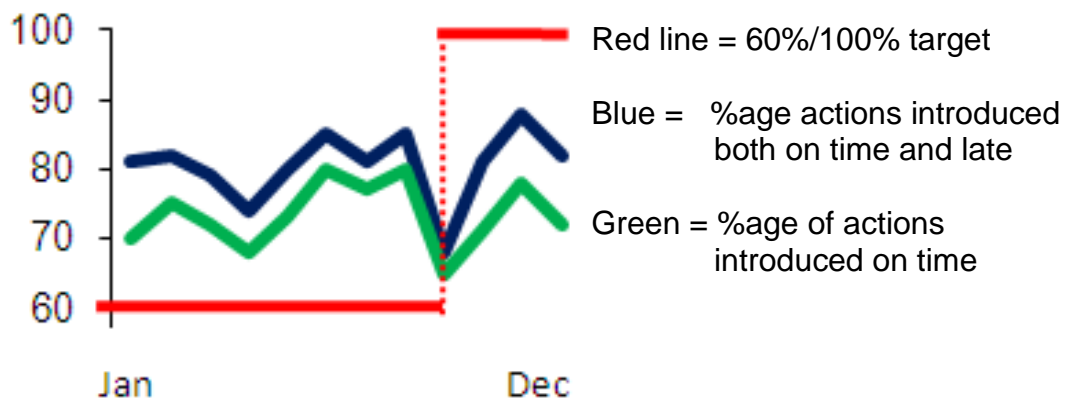
2.3 The IT audit plan was agreed in December 2012 for the 15 month period ending March 2014. 10 areas were planned to be reviewed. As at the 31 December seven of those reviews have been completed, three within 2012/13 and four within the current audit plan year. One of the reviews (application review of Community Infrastructure Levy) did not progress further than the draft reporting stage due to a management decision to procure alternative software. Two further reviews commenced during January. It is expected that the final review will be completed by the year end.

3. Implementation of Agreed Actions

3.1 From September 2013, Chief Officers' Management Team (COMT) increased the target for introducing agreed audit actions on time, from 65% to 100%. Performance is reported to the COMT each month.

For the year ending December 2013, 72% of agreed actions were introduced on time.

3.2 The chart below shows performance for the year ending December 2013.



Status of Action				
	Introduced on time	Introduced Late	Not introduced	TOTAL
Red Action	15	3	3	21
Amber Action	48	6	12	66
Total	63	9	15	87
% age	72%	10%	18%	

3.3 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.

4. Internal Audit's Performance

4.1 Information is included in Appendix 2.

5. List of Appendices

Appendix 1 – Internal audit work undertaken.

Appendix 2 – Internal audit performance

CONTACT OFFICER

David Harwood. Internal Audit & Risk Manager

Tel No. 01480 388115

**Summary of Internal Audit Work
1 April to 31 December 2013**

Internal Audit reports issued during the period

Audit area	Level of assurance				Agreed action status	
	Substantial	Adequate	Limited	Little	Red	Amber
Cashiering income & receipting	✓✓				0	1
Value added tax	✓✓				0	2
Staff travel & subsistence	✓✓				0	4
Call Centre: Amundsen House		✓			0	0
Electronic documentation management		✓			0	4
Pay review/job evaluation		✓			2	2
Consultants & employment status			x		0	2
Income generation & grant income			x		0	4
Internet use monitoring			x		1	5
One Leisure: Café Zest			x		3	5
Information management			x		4	4
Social media				xx	7	3
Computer Audit						
Application upgrades & patching		✓			0	5
Application review: Gladstone MRM		✓			0	6
Software licensing		✓			1	1

There were no suggested actions proposed by internal audit during the draft or final reporting stages that were rejected by management.

The table above does include the work that has been undertaken in respect of the continuous auditing of key controls within the main financial systems of

- Council Tax
- Main Accounting System (incl. bank reconciliations)
- Accounts Payable (Creditors)
- Accounts Receivable (Debtors)

Reviews have been conducted on a quarterly basis within these areas. A number of minor control failings have been identified. Reports that summarise the findings from the main financial systems will be prepared following the completion of the March reviews.

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

- Review of the sales bonus scheme in use within One Leisure.
- Responding to whistleblowing allegations and reviewing the approved policy.
- Consideration of the national fraud initiative data.
- Attending 17 quotation openings.

- Leading the annual governance review and preparation of the annual governance statement.
- Development of the employee handbook.
- Involvement with the social media user group and developing policy.

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

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.

One Leisure – Pure and Café Zest

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 were weak and inconsistent. Pricing and discount arrangements were not sufficiently controlled.

A follow-up review has been completed in respect of 'Pure'. This found that all the agreed actions had been introduced. The Café Zest follow-up review is due to be conducted by 31 March.

Post Implementation Reviews (PIR)

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. One of the two agreed actions has been the introduced. The outstanding action is reliant upon the completion of the project management guidance, as it refers to the process to be followed for undertaking a PIR.

Code of Procurement

A number of reports have been considered by the Panel during the year that referred to non-compliance with the Code of Procurement. As a result of the instructions that have been issued by COMT to managers, changes to the Code of Procurement and the attendance by internal audit staff at the opening of quotations, it is evident that compliance with the Code has improved.

A contract audit training course was attended by all the internal audit team and the Fraud Manager in September 2013. As a result of this, a summary record of contractors and tender prices is being developed alongside an expenditure analysis. Both documents will be used to inform the selection of contacts for future audit.

Establishment Control

Ensuring the accuracy of the payroll to reduce the opportunity for fraud is a key control. The six monthly establishment report for July 2013 were emailed to managers in July 2013 by LGSS HR. Despite reminders being issued, 10 (16%) of the 63 managers had not provided a response at the time of writing this report.

For information: **Levels of Assurance - Definitions**

<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>

Internal Audit Performance

Customer Satisfaction

Target: 85% or more of auditees rating service quality as good or better.

Achieved: 12 months to December 2013 - 100% (from 19 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.

Service Delivery Targets

Target: The service delivery targets achieved.

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

Since all the 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. There is no intention to change the targets. They are challenging.

	Target	Achieved	
		@ June 2013	@ Dec 2013
a) Complete audit fieldwork by the date stated on the audit brief.	75%	71%	57%
b) Issue draft audit reports within 15 working days of completing fieldwork.	90%	75%	61%
c) Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report.	75%	64%	67%
d) Issue final audit report within 5 working days of receiving full response.	90%	92%	78%

Service Developments

Planned developments 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”.