

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Internal Audit Service: Interim Progress Report
Meeting/Date:	Corporate Governance Panel – 26 November 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 October 2014 and associated performance issues.

During the reporting period it should be noted that:

- Three 'substantial', seven 'adequate' and four 'limited' assurance opinions were issued.
- 49% of agreed internal audit actions for the year ending 31 October 2014 were introduced on time. An additional 30% were introduced, but late. 21% have not been introduced.
- An auditor has been seconded to the post of Accountancy Manager. This will affect the delivery of the audit plan for the remainder of the year.

With effect from 20 October, an auditor (0.6fte) was seconded to the post of Accountancy Manager. Corporate Management Team (CMT) have agreed to the recruitment of a temporary auditor to back-fill the auditor post.

The computer audit contract with Mazars ends on 31 January 2015. The computer audit plan is underway and expected to be completed by this date. Whilst there will be a requirement for IT audit coverage following the introduction of IT shared services, it has been decided not to re-tender the IT audit service immediately. Once the technical/infrastructure/service related risks to the Council from delivery of the IT shared service are clearer, a decision on IT audit coverage will be made. The Panel will be updated on the action that is taken.

Following the introduction of the Public Sector Internal Audit Standards in April 2013 and the requirement for the 'Chief Audit Executive' to be formally qualified, the Internal Audit & Risk Manager, has become a Chartered Member of Institute of Internal Auditors. All members of the Internal Audit Service are now professionally qualified.

In accordance with the Internal Audit Charter, the Internal Audit & Risk Manager continues to report functionally to the Corporate Governance Panel and administratively to the Head of Resources. He has maintained organisational independence and 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

The back-filling of the auditor post will be contained within the current service budget. The delay to the re-tendering of specialist IT audit services will not have an effect upon the 2014/15 budget as the IT audit plan for the year has already been agreed. The budget for 2015/16 and onwards is not expected to increase.

There are no legal implications arising from this report.

Recommendation:

It is recommended that the Panel in considering the report, note the following:

1. The secondment of an auditor to the post of Accountancy Manager;
2. The decision of CMT to allow the Internal Audit & Risk Manager to recruit to the auditor vacancy; and
3. The postponement to the re-tendering of specialist IT audit services.

1. Delivery of the 2014/15 Audit Plan

- 1.1 Panel approved the internal audit plan (consisting of 34 reviews and 5 continuous audit areas) at its July 2014 meeting.
- 1.2 The nature of the internal audits work is such that the audit plan changes frequently. Two audits have been removed from the plan: email monitoring (due to issues with not being able to download the required data for analysis) and Making Assets Count (on account of the very limited progress that has been made). The audit days for these two areas has been reallocated to undertake some preliminary assurance mapping work to assist the annual governance statement process and in assisting the Managing Director in preparing post project reviews of the Huntingdon multi-storey car park and One Leisure St Ives redevelopment.
- 1.3 The audit plan included a 'consultancy' review of Chart of Accounts. This review took longer than expected and consequently the days allocated to two audit reviews (Charging for Council Services and Payroll) were transferred to this piece of work.
- 1.4 With effect from 20 October, an auditor (0.6fte) was seconded to the post of Accountancy Manager for a maximum of 12 months. CMT have agreed to the recruitment of a temporary auditor (for the same time period) to back-fill the seconded post. The recruitment process has commenced.

Considering the time it takes to recruit an employee, it is anticipated that any new appointment will not be in post until February 2015 at the earliest.

- 1.5 Whilst the plan is reviewed and amended each Quarter to respond to changes that are occurring within the Council and ensure that resources are focused on the most appropriate areas, the secondment and recruitment process will inevitably affect the overall audit time available this year.

In recognising the need to undertake internal audit reviews that cover the significant risks facing the authority and the need to ensure that resources are spent appropriately, options have been evaluated as to the most appropriate way to back-fill the vacancy. These have included the use of agency staff, buying in resources from a neighbouring authority, the increased use of Mazars and a direct recruitment. Due to the appointment being for a period of up to 12 months, a decision was taken to undertake an external recruitment process.

- 1.6 The audit plan has been recast for the period 1 November 2014 to 31 March 2015 based on the current risks and resources available.

It is anticipated that the continuous audit reviews of the five key financial systems will be undertaken, together with reviews of the following areas.

One Leisure
E-recruitment
Staff training and development
Service developed ICT systems
Licences

S151 & Monitoring Officer roles
Loans and investments
Housing Benefits
Housing Policy/Strategy

In addition, time has been made available to review/support the development of shared services, attend quotation openings and deal with whistleblowing allegations received.

Time has also been allowed to undertake an effectiveness review of the S106 Agreement Working Group. As part of this review, an internal audit of S106 Agreements will also be undertaken.

1.7 Audits that will not be completed this year are listed below.

Refuse and kerbside waste collection	Bailiffs and debt collection
CCTV	Management of health & safety
Car parks incl. excess charges	Economic development
Budgetary control	Staff Allowances
Recruitment to 'high risk' posts	Casual and temporary employees
Payment of election fees	Delivery of Corporate Plan

1.8 Further adjustments may need to be made to the audit plan dependent upon how quickly a replacement auditor can be recruited. The Chairman of the Panel will be kept informed of the progress that is being made.

1.9 Details of all the audits that have been issued in the reporting period (both in respect of the 2013/14 and 2014/15 audit plans) are shown in Appendix 1. All completed audit reports are available via the internal audit intranet pages and have also been circulated to Panel Members.

2. IT Audit Coverage

2.1 Due to the specialist nature of IT audit, it is delivered by a specialist provider, Mazars. Mazars are currently undertaking the planned schedule of IT reviews. No reports have been issued at this time.

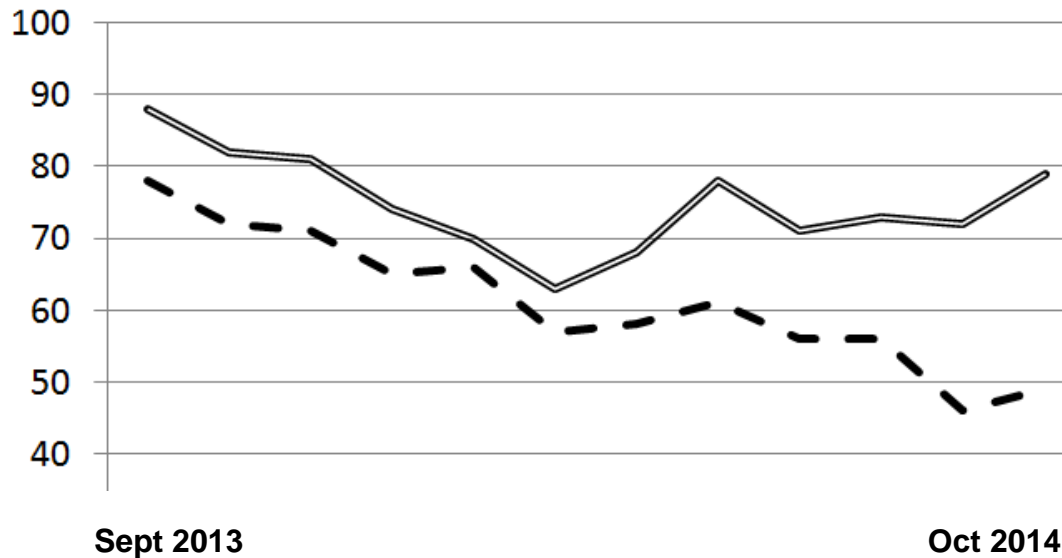
2.2 The contract with Mazars ends on 31 January 2015. The re-tendering of the contract would normally have been undertaken at this time. However due to the decision to enter into a shared IT service, the re-tendering process has not commenced. Whilst Huntingdonshire are currently leading on preparing the IT business case, the exact scope or nature of IT audit coverage across the three shared service partners will not be known until the business case has been approved.

3. Implementation of Agreed Actions

3.1 The target for introducing agreed audit actions on time is 100%.

For the year ending October 2014, 49% of agreed actions were introduced on time. A report elsewhere on the agenda details the performance of individual managers.

3.2 The chart below shows performance for the year ending October 2014.



———— = % of all actions introduced
 - - - - - = % of actions introduced on time

	Status of Action			TOTAL
	Introduced on time	Introduced Late	Not introduced	
Red Action	14	9	6	29
Amber Action	39	23	17	79
Total	53	32	23	108
% age	49%	30%	21%	

3.3 A sample of the actions that have been fully introduced are reviewed each quarter. Changes have been made to the Internal Audit reporting process to improve the effectiveness of the follow up process.

At the conclusion of an audit, Managers are now required to agree the 'evidence' they will provide (e.g. amended procedure notes, reconciliation statements) to show that an agreed action has been fully introduced. The 'evidence' details are included in the final audit report and recorded in the audit actions database. When a Manager indicates that an action has been fully completed, they are required to upload the 'evidence' to the database to support this statement.

Rather than having to meet managers to obtain the evidence that supports the action that has been introduced, auditors will be able to undertake a desktop review of the 'evidence' and form an opinion as to whether or not the agreed audit action has been fully introduced or not.

- 3.4 If during the desktop review it is found that the evidence or action taken does not adequately mitigate the risk that the audit report identified, then the matter is discussed with the appropriate manager and if necessary, changes to the database are made to reflect the actual position.

4. Issues of Concern Identified in previous reports

- 4.1 The annual audit report for the year ending March 2014, identified a number of issues of concern. Progress made in dealing with these issues is detailed below.

Social Media

- 4.2 The Council's use of social media was found to be largely uncontrolled across services. A social media policy has been approved by CMT and a Social Media user group established, which Internal Audit attend.

One Leisure – Café Zest

- 4.3 The review of the management of the Café Zest identified a number of control failings, including: inconsistent operations across the Centres; lack of formal business plans, strategies and targets; little management review or monitoring performed; stock controls weak and inconsistent; pricing and discount arrangements not sufficiently controlled. A follow-up review is currently underway.

Post Project Reviews

- 4.4 There is infrequent, formal challenge or consideration of the value for money aspects of completed projects.

Project management guidance has been prepared that explains the process for undertaking project close down reports. The first such reviews (One Leisure St Ives redevelopment and Huntingdon multi-storey car park) using the methodology in the guidance were reported to Overview & Scrutiny Panel (Economic Well-Being) earlier this month.

Establishment Control

- 4.5 Ensuring the accuracy of the payroll to reduce the opportunity for fraud is a key control. The last six monthly report and check was undertaken in February 2014. HR confirmed that all managers responded and this was completed by mid-May 2014. Action is underway to produce the next six monthly check.

5. Internal Audit's Performance

5.1 Information is included in Appendix 2.

Service Developments

5.2 Two specific service developments were agreed for 2014/15.

- I. Trialling commercial software to enhance the continuous audit approach.

A three month trial commenced in September. The software allows pre-defined tests to be automatically run so that any control breaches are quickly identified and passed to the appropriate person to action. The trial is proving successful and a project will be considered by CMT prior to a decision as to whether to purchase the software and roll it out across other systems.

- II. 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".

This review has not yet started. It will be completed as part of annual statutory effectiveness review.

6. List of Appendices

Appendix 1 – Internal audit work undertaken.

Appendix 2 – Internal audit performance

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**Summary of Internal Audit Work
1 April to 31 October 2014**

Internal Audit reports issued during the period

Audit area	Level of assurance				Agreed action status	
	Substantial	Adequate	Limited	Little	Red	Amber
Insurance	✓✓				--	--
Risk Management	✓✓				--	--
Housing Benefits	✓✓				--	--
Promotion of Active Lifestyles*		✓		--	--	1
Pay Review Amendments & Redundancy		✓			--	1
Grants to Outside Bodies		✓		--	--	2
Repairs and maintenance of operational property		✓		--	--	4
Freedom of Information		✓			--	4
CIL: Community Infrastructure Levy		✓			1	1
One Leisure - Impressions			x		3	6
Commercial Rents			x		--	8
Computer Audit						
Business Continuity/Disaster Recovery		✓			--	3
E-Payments			x		1	1
Virtualisation, Network Infrastructure & Backup			x		--	13

* Draft report issued

In addition to the reports listed above, reviews have also been completed on the following areas. No assurance opinions were given:

- e-recruitment process
- compliance with the Code of Procurement
- separation of duties within cashiering

The table above also 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
- National Non Domestic Rates
- 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 and reported to the appropriate manager.

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

- Supporting the Managing Director in preparing the project close down report on the Huntingdon multi storey car park
- Advising One Leisure on new procedures to support the introduction of the central administration team and the introduction of telephone payments
- Responding to whistleblowing allegations
- Submission of national fraud initiative data sets
- Supporting the Panel in the annual governance review, the preparation of the annual governance statement and its annual report
- Development of the employee handbook
- Reviewing the effectiveness of the Licensing Panel
- Advising the Social Media User Group and developing policy
- Attending eight quotation openings

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

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 October 2014 - 89% (from 18 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 are achieved.

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

Since the three auditor posts became 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	@ March 2014	@ Oct 2014
a) Complete audit fieldwork by the date stated on the audit brief.	75%	71%	57%	63%	60%
b) Issue draft audit reports within 15 working days of completing fieldwork.	90%	75%	61%	62%	70%
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%	79%	95%
d) Issue final audit report within 5 working days of receiving full response.	90%	92%	78%	83%	85%