

HUNTINGDONSHIRE DISTRICT COUNCIL

Title: Internal Audit Service: Annual Report
Meeting/Date: Corporate Governance Panel – 15 July 2015
Executive Portfolio: Resources: Councillor J A Gray
Report by: Internal Audit & Risk Manager
Ward(s) affected: All Wards

Executive Summary

As required by the Public Sector Internal Audit Standards (PSIAS) the Internal Audit & Risk Manager has to provide an annual report and opinion to the Panel.

This report details the work undertaken by Internal Audit during the period 1 April 2014 to 31 March 2015 to support the following opinion statement.

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 31 March 2015 provide adequate assurance over key business processes and financial systems.

David Harwood
Internal Audit & Risk Manager

June 2015

The adequate assurance opinion improves upon the limited assurance opinion given last year. The financial system controls are in place and with the exception of those within accounts receivable are working effectively.

To conform with the requirements of the PSIAS, the report also provides information on:

- the delivery of the annual audit plan;
- audit reports issued and issues of concern;
- implementation of agreed actions;
- Internal Audit's performance; and
- the action taken arising from the external peer review of the service reported to the Panel in May 2014.

Whilst the quarterly continuous audit reviews of the five main financial systems have been undertaken, of the remaining 38 audits contained in the audit plan approved by Panel in June 2014, only 17 audits have been completed (45%).

The non-delivery of 21 audits is due to the 'loss' of 147 auditor days during the year. The reasons for this are as follows:

- Having an auditor post vacant from mid October 2014;
- The co-sourced arrangements being unable to cover this vacancy;
- The IT auditor not delivering the audit plan within the contract period;
- The substantial unplanned time spent on the following three areas: Chart of accounts 'consultancy' review, post-project reviews and the audit actions database.

An auditor has been recruited (with effective from 22 June 2015) and it is expected that the 2015/16 audit plan will be delivered if there are no further resourcing issues.

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.

The Internal Audit & Risk Manager has undertaken a self-assessment to evaluate internal audits conformance with the PSIAS. There are no matters that need to be brought specifically to the attention of the Panel from that review or require inclusion in the annual governance statement.

Definitions of the assurance opinions are provided at Appendix D. A report that explained the terminology and definitions associated with internal audit opinions and reports was considered by Panel in January 2014.

Recommendation:

It is recommended that the Panel

1. consider and comment upon the report and;
2. take into account the Internal Audit & Risk Manager's opinion when considering the Annual Governance Statement for 2014/15.

1. WHAT IS THIS REPORT ABOUT

- 1.1 This is the annual report of the Internal Audit & Risk Manager. It covers the period 1 April 2014 to 31 March 2015.
- 1.2 The report includes the Internal Audit & Risk Manager's annual opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes.

2. WHY IS THIS REPORT NECESSARY/BACKGROUND

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require an annual report to be considered by the Panel (who fulfil the role of the Board, as defined by PSIAS).

3. OPTIONS CONSIDERED/ANALYSIS

- 3.1 The PSIAS determines the matters that are required to be included in the annual report. The Accounts and Audit (England) Regulations 2011 require that at least once in each year, the Council 'must conduct a review of the effectiveness of its internal audit'. Whilst this Regulation has been superseded by the Accounts and Audit Regulations 2015, that requires that the Council 'must undertake an effective internal audit...taking into account public sector internal auditing standards or guidance'.
- 3.2 The annual opinion has improved – moving from limited to adequate assurance. The internal control environment is generally effective and whilst the annual opinion is given at a 'moment in time', nothing has subsequently arisen that would suggest that the opinion statement needs to be revised.
- 3.3 The annual report is required to contain details of the periodic assessment of the internal audit service against the PSIAS. There are no matters that need to be brought specifically to the attention of the Panel from that review or require inclusion in the annual governance statement. A separate agenda report provides more details on the review process.
- 3.4 The Internal Audit & Risk Managers annual report for 2014/15 is attached to this report.

4. COMMENTS OF OVERVIEW & SCRUTINY PANEL

- 4.1 Not applicable.

5. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED

- 5.1 Risk register entry 166 refers to the non-delivery of the internal audit plan and agreed internal audit actions leading to a shortfall in assurance on the internal control environment and criticism by the external auditors.

5.2 Risk register entry 255 refers to the Internal Audit Service not being compliant with the PSIAS leading to the inclusion of significant non-compliance issues in the annual governance statement.

5.3 The residual risk score for both risks is low. It did not change during the year despite the problems associated with having insufficient resources available. The controls associated with both risks are reviewed regularly by the Internal Audit & Risk Manager. The Head of Resources was kept informed of the resourcing issues and how it would impact upon the delivery of the audit plan. The issues were not related to insufficient budget being available to the service.

6. WHAT ACTIONS WILL BE TAKEN?

6.1 The annual report will be considered by the Panel during the preparation of the annual governance statement.

7. LINK TO CORPORATE PLAN

7.1 The Internal Audit Service provides assurance to management and the Panel that risks to the delivery of the Corporate Plan across all of its areas are understood and managed appropriately.

8. CONSULTATION

8.1 Not applicable.

9. LEGAL IMPLICATIONS

9.1 There are no legal implications arising from this report.

10. RESOURCE IMPLICATIONS

10.1 There are no resource implications arising from this report.

11. OTHER IMPLICATIONS

11.1 None.

12. REASONS FOR THE RECOMMENDED DECISIONS

12.1 The Panel is required to receive an annual report on the work of the Internal Audit Service.

BACKGROUND PAPERS

Internal Audit Reports

Internal Audit Performance Management Information

CONTACT OFFICER

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Internal Audit Service
Annual Report
2014/15

1. INTRODUCTION

1.1 This is the annual report of the Internal Audit & Risk Manager as required by the Public Sector Internal Audit Standards (PSIAS). It covers the period 1 April 2014 to 31 March 2015.

1.2 The report includes the Internal Audit & Risk 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 provided by the external auditors.

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 31 March 2015 provide adequate assurance over key business processes and financial systems.

David Harwood

Internal Audit & Risk Manager

June 2015

2.1 The audit opinion has been given as at 31 March 2015 to reflect the current state of the internal control environment and systems of internal control across the Council and provide the Panel with an opinion for inclusion in the annual governance statement (AGS). If significant changes occur to the internal control environment prior to the Panel approving the AGS statement in September, the Panel will be informed.

2.2 In preparing the internal audit plan for 2014/15, Managers were asked if they were aware of any planned reviews by external organisations from which assurance could be obtained on the operation of the internal control environment and systems of internal control. With the exception of the statutory external audit of accounts/grant certification (Appendix B), no external assurances were identified for 2014/15.

3. DELIVERY OF THE AUDIT PLAN

3.1 The Internal Audit Plan, prepared in accordance with the PSIAS, was approved by the Corporate Management Team (CMT) and the Panel in June 2014 in respect of the year ending March 2015. (The delay to the approval of the plan from March 2014 was due to the appointment of

the new management team. The delay was agreed by the previous Panel Chairman). The approved plan consisted of 32 general reviews, six IT audits, one consultancy review and quarterly system reviews of five financial systems. Excluding the Internal Audit & Risk Manager, the plan was to be delivered by the equivalent of 1.8 full time equivalents (FTE).

- 3.2 On the 17 October 2014 an auditor was seconded to the post of Accountancy Manager for one year. Despite interviewing three candidates for the post, after advertising externally and approaching recruitment consultants no appointment was made. The IT audit partner was asked if they would be able to cover the post, but due to their own staffing issues were unable to do so. The situation was reported to the Panel in November 2014 and March 2015 along with the effect it would have on the delivery of the 2014/15 audit plan. An appointment was made to the post on 22 June 2015.
- 3.3 The seconded auditor had been undertaking a 'consultancy' review of the Chart of Accounts (the structure that underpins the financial management system). This was initially estimated as taking 10 days. The scope of the review increased and by October 2014, 31 days of the auditor's available time had been spent on this review. Taking into account this additional time and not being able to fill the vacant post for the rest of the year, there has been an overall loss of 76 audit days during the year.
- 3.4 The audit plan also included 30 days for the delivery of general audits from the Council's IT audit contractor. Due to the contractor's own recruitment and scheduling difficulties they were unable to deliver these days. Combining these days with those arising from the non-recruitment of an auditor, the available resources to deliver the audit plan across the year was only 1.4 FTE.
- 3.5 Unplanned time was spent in two areas during the year which also has affected the delivery of the audit plan:
- 25 days on assisting CMT in the post-project reviews of the Huntingdon multi-storey car park and One Leisure St Ives redevelopment.
 - 8 days on identifying and managing the issues that arose from the loss of the SharePoint audit actions database in November 2014 and the manual preparation of monthly information. (A report on this matter was presented to the June Panel meeting).

General audit

- 3.6 Of the 32 reviews originally planned, only 12 reviews have been completed. This is disappointing and is due to the audit team carrying a vacancy from October 2014 and the additional unplanned time spent as listed at paragraph's 3.3, 3.4 and 3.5 above. Appendix A contains details of the status of audits as per the agreed internal audit plan.

IT audit coverage

- 3.7 Due to the specialist nature of IT audit, it was delivered under contract by Mazars LLP. The contract ended on 31 January 2015. Five of the six planned reviews have been completed. Mazars had a number of staffing issues in the last few months of the contract which resulted in one audit not being commissioned due to the contract having ended.

Internal Audit Reports issued

- 3.8 The audit reports issued, the assurance opinion (see Appendix D for further explanation) and number of agreed actions are listed in the table below.

Audit area		Level of assurance				Agreed action status	
		Substantial	Adequate	Limited	Little	Red	Amber
Insurance*	1315	✓✓				--	--
Risk management*	1316	✓✓				--	--
Housing benefits*	1305	✓✓				--	--
Payroll: deductions	1417		✓			--	--
CCTV	1434		✓			1	3
Loans and investments	1408		✓			1	4
Promotion of active lifestyles	1321		✓			--	1
Roles and duties of S151 & Monitoring Officer			✓			--	2
Pay review amendments & redundancy			✓			--	1
Grants to outside bodies	1308		✓			--	2
Repairs and maintenance of property*	1314		✓			--	4
Freedom of information	1425		✓			--	4
One Leisure: Control of income	1408		✓			--	6
Community infrastructure levy*	1318		✓			1	1
Staff Training	1416			x		3	3
One Leisure: Impressions*	1322			x		3	6
Commercial rents*	1312			x		--	8
Computer Audit							
IT for Members	14/15		✓				1
Business continuity/disaster recovery*			✓			--	3
Network security	14/15		✓				5
Desktop management	14/15		✓				1
Virtualisation, network & backup* +			✓				13
Service desk, change & release management				x		--	2
E-payments*				x		1	1
Uniform application	14/15			x		1	6

* Reports arising from 2013/14 audit plan

+ The virtualisation, network & backup audit contained two amber actions that were not accepted by management. They accepted the risk that had been identified.

- 3.9 In addition to the reports listed above, audit reviews have also been completed on the following areas:
- the e-recruitment process
 - separation of duties within the cashiering function
 - service delivered IT systems.

These reviews resulted in no overall assurance opinions being given due to either limited testing being undertaken or the audits changing focus and becoming more advice orientated. Suggested improvements to controls were made as appropriate.

- 3.10 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
Council tax			✓			--	--
Non domestic rates			✓			--	--
Main accounting system			✓			--	5
Accounts payable (Creditors)			✓			--	2
Accounts receivable (Debtors)					xx	--	--

- 3.11 The accounts receivable review has been given little assurance. No suggested improvements to the current controls have been made due to the Head of Resources undertaking a comprehensive and fundamental review of the systems and procedures in place. This will introduce a number of changes to the control environment which should resolve the weaknesses that have been identified.

- 3.12 Internal audit have also undertaken significant 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 and One Leisure St Ives redevelopment
 - Undertaking a 'consultancy' review of the Chart of Accounts
 - 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
 - Auditing the Alconbury Building Foundations for Growth Capital Grant on behalf of the DCLG
 - Supporting the Panel in the annual governance review, the preparation of the annual governance statement and its annual report
 - Compliance with the Code of Procurement
 - Assurance mapping
 - Writing the Employee Code of Conduct

- Reviewing the effectiveness of the Licensing Panel
- Advising the Social Media User Group and developing policy
- Undertaking a three month trial of 'continuous management' software to identify in real time potential errors, mistakes or fraud in the processing of creditor payments
- Attending seventeen quotation openings
- Undertaking two 'staff' investigations.

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

4. ISSUES OF SPECIFIC CONCERN

E-recruitment

4.1 The Council have been using the Local Government Shared Services (LGSS) e-recruitment software since December 2013. This has placed responsibility for undertaking the full recruitment process onto managers with limited assistance from LGSS. A review was initially conducted in May 2014 but had to be curtailed due to the auditors having no 'read only' access to the software and only been able to undertake cursory checks on the recruitment process that managers were required to follow.

4.2 A further review was completed in March 2015. Internal audit still did not have full 'read only' access so were only able to undertake a limited amount of testing and had to rely on gathering evidence from discussions with recruiting managers and successful applicants. More than 20 issues were identified covering both the recruitment process itself and the e-recruitment software. LGSS internal audit have been contacted and asked what work they have carried out on the e-recruitment system. No reply has been received. Since no assurance has been received from LGSS themselves that the system is working as intended, and without sufficient testing evidence, it was not possible to issue an opinion on the effectiveness of the e-recruitment system.

5 LOW GRADED AUDITS FROM PREVIOUS YEARS

5.1 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		
2012-13				
Limited	2	0	Post-implementation reviews The Overview and Scrutiny Panel (Economic Well-Being) have reviewed two post-project review reports. Revised project management guidance requires regular post-project reporting to Members.	Adequate
Limited	1	4	Contract management 3 of the 5 actions remained outstanding at March 2014. A new electronic contract register has been introduced which dealt with the outstanding actions.	Adequate
2013-14				
Limited	0	2	Employment taxation The 'Team HDC' membership scheme for One Leisure has been launched to address benefit in kind implications for staff use of the One Leisure facilities. Guidance has been issued to staff on how to decide if a consultant should be classified as an employee (rather than self-employed) under Inland Revenue rules.	Adequate
Limited	0	4	Income generation and grant income The actions required changes to the Code of Financial Management to make clear the need to seek external funds and improvements to the sharing of information on grant bids. The actions have been introduced.	Adequate
Limited	0	8	Commercial rents and estate management Two actions remain outstanding. These were reported to the Panel at its June meeting. The majority of the actions related to the updating of day-to-day operational procedures. These have been introduced.	Adequate
Limited	1	1	Internet use monitoring Regular reports on staff's use of the internet are now circulated to managers.	Adequate

Original level assurance	Agreed Action Status		Audit area and follow-up findings	'Potential' level of assurance
	Red	Amber		
Limited	3	5	One Leisure – Café Zest Of the three red actions, one has been introduced (financial and qualitative targets), one deferred until it is considered as part of the 2015/16 Facing the Future review (preparation of a formal business plan/strategy for the Café Zest brand) and one not introduced (clear reporting structure, meetings (both from management and cross site) improved communications and team working).	Limited
Limited	4	4	Information Management All the actions have been introduced.	Adequate
Little	7	3	Social Media All the actions have been introduced.	Adequate

6. IMPLEMENTATION OF AGREED ACTIONS

- 6.1 Since November 2014 the Panel has received reports that detail the percentage of agreed internal audit actions introduced on time.
- 6.2 CMT have set a target of 100% of agreed actions to be implemented on time, based on a rolling 12 month timeframe. Due to issues with the internal audit SharePoint site, this information was not prepared for the 31 March 2015 although information had been prepared for previous and future months. The 100% target was not achieved at the 31 March.
- 6.3 As reported to the June 2015 Panel meeting, the problems encountered with the SharePoint site have also lead to the loss of some of the written evidence retained on follow-up reviews completed during the year and the decision taken as to whether or not an action that has been introduced is sufficient. SharePoint site issues are continuing and an alternative solution is being investigated.

7. INTERNAL AUDIT PERFORMANCE

- 7.1 The PSIAS require that an on-going quality assessment and improvement programme is maintained. The programme requires that periodic assessment against the PSIAS are undertaken.
- 7.2 A self-assessment review has been completed and the outcomes of that review are reported elsewhere on the agenda. No issues have been identified during the review that would suggest that the internal audit service is not complying with the PSIAS.
- 7.3 Details of Internal Audit's performance against its own internal performance targets are available at Appendix C.

Appendices

- A. Status of audits as per the audit plan agreed
- B. External assurance received
- C. Internal audit performance
- D. Definitions used in the report

David Harwood
Internal Audit & Risk Manager
Huntingdonshire DC

**Status of audits as per the audit plan agreed
by Panel in June 2014.**

Audits completed

Loans/investments
CCTV
Staff Training & Development
One Leisure
Service developed ICT systems
Freedom of Information
Payroll: deductions
Grants to Outside Bodies
Payroll amendments from job evaluation scheme
S151 & Monitoring Officer
Promotion of active lifestyles
Cashiering function
Chart of Accounts (consultancy review)
e-recruitment (new audit added)

IT audit : Network Security
Service Desk
IT for Members
Desktop Management
Uniform Application

Quarterly key control reviews of financial systems:

Main accounting system
Creditors (accounts payable)
Debtors (accounts receivable)
Council tax
Non domestic rates

Audits not undertaken

Housing Benefits	Staff Allowances
Data Protection	S106 Agreements
Making Assets Count	Licences
Out-sourced - IT Services	Car Parks
Out-Sourced - Legal Services	Email review - non work/private use
Housing policy/strategy	Delivery of Corporate Plan Objectives
Management of Health & Safety	Refuse & Kerbside Waste Collection
Bailiffs & Debt Collection Agencies	Economic Development
Budgetary control and monitoring	Payment of election fees
Personnel - casual & temporary employees	
Monitoring of Recruitment to 'High Risk' Posts	
IT audit : One Leisure Website	

External Assurance Received

Date	Report from	Area covered	Assessment
November 2014	External Auditor (PricewaterhouseCoopers)	Annual Audit Letter 2013/14	Unqualified accounts. Unqualified value for money opinion.
March 2015		Grant Certification Report 2013/14	One grant certified: BEN01 Housing and Council Tax Benefit Subsidy - qualified.

Internal Audit Performance

Customer Satisfaction

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

Achieved: 12 months to March 2015 – 89% (from 9 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.

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. It is the intention to keep the same targets for 2015/16. They are both challenging and achievable with managers co-operation.

	Target	Achieved		Notes
		March		
		2014	2015	
a) Complete audit fieldwork by the date stated on the audit brief.	75%	60%	46%	The average delay is 16 days. (min 2 – max 54 days)
b) Issue draft audit reports within 15 working days of completing fieldwork.	90%	70%	87%	Two audits missed the target. Both due to difficulties in arranging 'wash-up' meetings.
c) Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report.	75%	95%	87%	
d) Issue final audit report within 5 working days of receiving full response.	90%	85%	92%	

Definitions used in the Report

Assurance definitions: for information

Substantial Assurance	✓✓	<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>
Adequate Assurance	✓	<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>
Limited Assurance	x	<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>
Little Assurance	xx	<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 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.