

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Internal Audit Service: Interim Progress Report
Meeting/Date: Corporate Governance Panel – 2 December 2015
Executive Portfolio: Resources: Councillor J A Gray
Report by: Internal Audit & Risk Manager
Ward(s) affected: All Wards

Executive Summary

This report details the work completed by the Internal Audit Service during the period April to October 2015 and associated performance issues.

During the reporting period it should be noted that:

- 1 'substantial', 7 'adequate' and 1 'little' assurance opinions were issued.
- There has been a steady improvement with the introduction of agreed audit actions. For the year ending 31 October, 70 actions (94%) of the 74 due, have been introduced.
- Three of the four service performance targets have been met.
- 90% of customers who have returned 'end of audit' survey forms, rated the value of the audit undertaken as good or very good.

The Internal Audit & Risk Managers opinion on the Council's internal control environment and systems of internal control as at 31 March was that it provided adequate assurance over key business processes and financial systems. From the work that has been completed, that opinion remains unchanged.

The auditor seconded for a year to the post of Accountancy Manager in October 2014 is now remaining in that post until April 2016. The contract of the temporary auditor appointed in June 2015 has also been extended to the same date.

No IT audit reviews have been completed in the period. This is due to the IT audit contract that ended in January 2015 not being re-let. The Internal Audit & Risk Manager took the decision not to re-let the contract on account of:

- Uncertainty as to which authority would become the employing authority for the IT service under the shared services project; and
- The work that he has been requested to undertake to examine the options for developing an alternative internal audit service delivery model.

Whilst the Council is now responsible for delivering the shared IT service, at the time of writing this report, no decision has been taken on the future service delivery model for internal audit. An update will be provided at the meeting. In accordance with the Panel's terms of reference, the Panel will be formally consulted before any changes to the current arrangements are introduced. Once the shared service decision is known, and if it is appropriate to do so, contractors will be appointed to undertake IT audit reviews during the current financial year. This will leave the option available to seek a

longer term partner from 2016/17 onwards who will not only provide IT audit services but also provide advice on developing an alternative service delivery model.

Whilst the lack of IT audit is of concern, Panel need to be aware that some of the risks associated with the lack of audit reviews has been mitigated by the Cabinet Office renewing the Council's Public Services Network (PSN) compliance certificate until the 13th November 2016. This certification shows that the Council has demonstrated that its infrastructure is sufficiently secure that our connection to the PSN does not present an unacceptable risk to the security of the network.

As has been reported to the Panel previously, there have been significant problems with the audit actions database. IT colleagues have agreed that it should be replaced with commercial software. A product has been identified and the system is planned to 'go live' from April 2016.

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.

Recommendation(s):

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

1. The Internal Audit & Risk Managers "adequate assurance" opinion over the internal control environment and system of internal control;
2. Whilst no IT audit reviews have been completed in the financial year to date, the assurance that can be obtained from the Council obtaining Public Sector Network compliance; and
3. A replacement audit actions monitoring system is to be purchased.

1. WHAT IS THIS REPORT ABOUT/PURPOSE?

- 1.1 This is an interim report detailing the performance of the Internal Audit Service for the period April to October 2015.

2. WHY IS THIS REPORT NECESSARY/BACKGROUND

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require that the Panel (who fulfil the role of the Board, as defined by PSIAS) receive an annual report on the work of the Internal Audit Service. Best practice suggests that an interim report should also be presented, to keep the Panel aware of any issues of concern that have been identified and the progress achieved with the delivery of the audit plan.

3. OPTIONS CONSIDERED/ANALYSIS

- 3.1 The interim report on the Internal Audit & Risk Manager is attached at Appendix A .

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 The residual risk score for this risk is low. The controls associated with the risk are reviewed regularly by the Internal Audit & Risk Manager.
- 5.3 The Head of Resources is aware of the issues regarding the lack of IT audit reviews and problems with the audit actions database.
- 5.4 Whilst the lack of IT audit is of concern, Panel need to be aware that some of the risks associated with the lack of audit reviews have been mitigated in part by the Council having had renewed until November 2016 its Public Services Network (PSN) compliance certificate.

PSN compliance shows that the Council has demonstrated that its security arrangements, policies and controls are sufficiently rigorous that its external facing IT systems are protected from unauthorised access or change. Compliance allows the Council to use the PSN and interact with others connected to it.

6. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 6.1 There are two area were action needed to be taken:

- the appointment of IT auditor contractors to undertake specialist IT reviews. A decision on how to proceed will be taken once it becomes clear how internal audit services are to be delivered in the future; and
- the introduction of a new audit actions systems. This is planned to be in place by April 2016.

7. LINK TO THE CORPORATE PLAN

- 7.1 The Internal Audit Service provides assurance to both 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 The costs associated with both the delivery of IT audit and the replacement audit action system can be met from existing budgets. .

11. OTHER IMPLICATIONS

- 11.1 None

12 REASONS FOR THE RECOMMENDED DECISIONS

- 12.1 The report is for information purposes and Panel are requested to note its contents.

13. LIST OF APPENDICES INCLUDED


Appendix 1 – Interim Internal Audit progress report

BACKGROUND PAPERS

Internal Audit Reports
Internal Audit Performance Management Information

CONTACT OFFICER

David Harwood, Internal Audit & Risk Manager

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INTERNAL AUDIT SERVICE

Performance Report : April To October 2015

1. DELIVERY OF THE 2015/16 AUDIT PLAN

1.1 Panel approved the Internal Audit Plan (consisting of 25 reviews and 5 continuous audit areas, audited quarterly) at its March 2015 meeting.

1.2 As at March 2015 the service had been unable to recruit to the vacancy that it had been carrying since October 2014. A cautious approach was taken as to the number of audits that could be delivered during the year. The vacant post was filled in June 2015 with a professionally qualified and experienced auditor. Consequently six audits have been added to the plan.

- Management of ill health and sickness
- Project management of the capital plan
- Business continuity
- Licensing
- Implementation of policy initiatives
- Tenders & quote procedures - review of current procedures

1.3 Four audits have been deleted from the original plan.

- Delivery of affordable housing. Deleted due to the service undertaking work in this area as part of preparing the Local Plan.
- Building control and legal shared services. The employing authority for both services is Cambridge City Council and they will be taking the lead on reviewing both services.
- Staff appraisal scheme. The scheme was fundamentally changed from April 2015. This area will be reviewed during 2016/17.

Only one audit has been introduced in their place – a construction contract review of the One Leisure St Ives redevelopment. Time allocated for the remaining audits has been spent on non-audit areas, primarily assisting the Monitoring Officer with a Standards complaint and undertaking the shared internal audit service review.

1.4 The nature of internal audit work is such that the audit plan changes frequently. It is formally reviewed at the end of each quarter. Adjustments may need to be made to the audit plan to respond to changes that are occurring within the Council and so ensure that resources are focused on the most appropriate areas. All changes to the audit plan have been notified to the Panel Chairman.

1.5 Audit reports that have been issued in the period are listed in the table below together with the assurance opinion that has been given. Copies of the reports have been circulated to the Panel by email.

Audit area	Level of assurance ¹				Agreed action status	
	Substantial	Adequate	Limited	Little	Red	Amber
Procurement : Enforcement contract	✓✓				--	--
Roles and duties of S151 & Monitoring Officer		✓			--	2
Payroll : deductions		✓			--	--
Charging for Council services		✓			--	4
One Leisure: Control of income		✓			--	6
Housing benefits : overpayments		✓			--	3
CCTV		✓			1	3
Compliance with the transparency code		✓			1	7
Licensing				xx	2	1

¹ Appendix 1 contains information that explains the four assurance levels.

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

- Legal Debt Recovery
- Community Chest grants (draft report)
- A review of the data matches identified from the National Fraud Initiative.

1.6 The table at 1.5, does not 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); and
- Accounts Payable (Creditors).

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.

1.7 No continuous audit reviews of the Accounts Receivable (Debtors) system have been undertaken in 2015/16. The annual audit report considered by the Panel in July 2015 stated that the accounts receivable system had been given a little assurance opinion. To address this, the Head of Resources intended to undertake a comprehensive and fundamental review of the systems and procedures in place. This review has still to be completed. Consequently the Internal Audit & Risk Manager decided that any further reviews would be of little value until the review has been completed. Audits of this system will recommence once new working practices have been introduced.

1.8 Debts that remain uncollected through the accounts receivable process are passed to Legal Services to collect. A review of the legal debt recovery system quickly identified that very limited recovery action had taken place since October 2014. The audit was curtailed and the findings reported to the appropriate manager. An experienced debt collection officer was subsequently appointed (on a temporary basis) to restart the process of debt recovery. There remains an ongoing risk that debts may not be pursued, recovered or may become time-barred.

- 1.9 Internal Audit has also undertaken work in a number of other areas. These include:
- A review of the construction contract for the redevelopment of One Leisure St Ives. It is anticipated that the contractors final account for the scheme will reduce as a consequence of the review
 - Assisting the Monitoring Officer in reviewing a Standards complaint
 - Responding to whistleblowing allegations
 - Supporting the Panel in the annual governance review, the preparation of the annual governance statement, its effectiveness review and annual report
 - Attending five quotation openings
 - Reviewing the tender and quote opening procedure
 - Updating the anti-fraud & corruption strategy
 - Responding to CIPFA on the proposed new governance framework.

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

2. IT AUDIT & FUTURE INTERNAL AUDIT SERVICE DELIVERY

- 2.1 There have been no computer audit reviews undertaken in the reporting period.
- 2.2 The computer audit contract ended on 31 January 2015. At that time it was unclear how IT services would be delivered to the Council under the shared services project. The Internal Audit & Risk Manager decided not to retender the IT audit contract until it became clear what role and responsibilities the Council would have in delivering those services. He was unwilling to commit the Council contractually to the provision of an IT audit service, if the Council subsequently did not become the employing authority for the IT shared service
- 2.3 As was reported to Cabinet in July, Internal Audit Services have been considered for inclusion in phase two of the shared service project. The Internal Audit & Risk Manager has led on reviewing alternative service delivery options for internal audit across the three partner Council's. No decision has yet been taken on what option is to be followed.
- 2.4 Whilst the Council has become the employing authority for IT staff and responsible for the delivery of IT services to the three Councils, services, due to uncertainty over the future model of internal audit service delivery, the Internal Audit & Risk Manager again took the decision not to seek tenders from IT audit suppliers. Once a decision on the service delivery model for internal audit is known, it is anticipated that contractors will be appointed to undertake IT audit reviews during the current financial year. This will leave the option available to seek a longer term partner from 2016/17 onwards who will not only provide IT audit services but also provide advice (if required) on developing an alternative internal audit service delivery model.
- 2.5 Panels terms of reference require it to be consulted by the Responsible Financial Officer on proposals for the appointment of external providers of internal audit services and/or shared internal audit services. A report will be presented to a future Panel meeting on service delivery options.

3. IMPLEMENTATION OF AGREED ACTIONS

- 3.1 A separate report on the implementation of agreed audit actions is included on the Panel agenda .
- 3.2 It is noticeable that the action the Panel took in raising the matter of poor performance in this area with Council (and subsequently with Cabinet) has resulted in managers paying more attention to ensuring actions are introduced on time or requesting extensions of time to the agreed deadlines. Performance for the year ending October, shows that 94% of audit actions (70 actions of the 74 due) have been introduced.
- 3.3 As has been reported to the Panel previously, there have been significant problems with the SharePoint audit actions database. Colleagues from the Information Management Division now believe that a full rebuild of the system is required. They are unable to do this due to other commitments and support the purchase of commercial software. A product has been identified. Its initial purchase and maintenance costs will be £5000. These costs can be met from existing budgets. The new system is planned to 'go live' from April 2016.

4. Issues of Concern

- 4.1 The annual audit report for the year ending March 2015, identified as an issue of concern the e-recruitment system.
- 4.2 Following the audit review, internal audit and the Council's contract manager meet with LGSS (who supply the e-recruitment system) to discuss the issues raised. It was agreed that the Council and LGSS would investigate each of the audit findings and then decide upon the action to be taken. A number of changes to the system have been introduced. In addition, the Council was to request that LGSS commission their own internal audit service to review the e-recruitment system so that they could provide assurance that it is robust and working effectively and not exposing the Council to any significant risks. It is understood that this review has not yet been requested, but is due to be requested at the next contract management meeting.

5 Internal Audit's Performance

- 5.1 Details of Internal Audits performance against its service plan performance targets are shown below.

Customer Satisfaction

Target: 85% or more of auditees rating service quality as good or better.
Achieved: 12 months to October 2015 - 90% (from 10 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

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

	Target	Performance achieved				
		@ 03/14	@ 10/14	@ 03/15	@ 10/15	
a) Complete audit fieldwork by the date stated on the audit brief.	75%	63%	60%	46%	33%	✘
b) Issue draft audit reports within 15 working days of completing fieldwork.	90%	62%	70%	87%	92%	✓
c) Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report.	75%	79%	95%	87%	77%	✓
d) Issue final audit report within 5 working days of receiving full response.	90%	83%	85%	92%	90%	✓

6. Service Developments

- 6.1 One service development area was agreed for 2015/16 – a review of the role of the Internal Audit Manager against the Cipfa publication “The role of the head of internal audit in public sector service organisations”.
- 6.2 The review has not yet started. Whilst it hoped that it will be completed by March 2016 it is not seen as a high priority and may be postponed depending on other time commitments.
- 6.3 The Internal Audit & Risk Manager was appointed to the CIPFA Audit Panel in June 2015. It has been agreed that the Council will allow him to attend Panel meetings within Council time, but work to support the Panel will be undertaken in the Officer’s own time.

Appendix 1 : Definition of the levels of assurance

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Levels of Assurance - Definitions

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>