HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Internal Audit Service: Annual Report and Internal Audit Charter review
Meeting/Date:	Corporate Governance Committee – 8 June 2016
Executive Portfolio:	Strategic Resources: Councillor J A Gray (Deputy Executive Leader)
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 Committee.

This report details the work undertaken by Internal Audit during the period 1 April 2015 to 31 March 2016 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 2016 provide, with the exception of IT systems (were no work has been completed during 2015/16), adequate assurance over key business processes and financial systems.

David Harwood
Internal Audit & Risk Manager   May 2016

Whilst the lack of IT audit is of concern, the Committee needs to be aware that some of the risks associated with the lack of IT audit reviews has been mitigated by the Cabinet Office renewing the Council's Public Services Network (PSN) compliance certificate in November 2015 for twelve months. 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.

The adequate assurance opinion is the same as last year. The financial system controls are in place and with the exception of those within accounts receivable are working effectively. The control failings within the accounts receivable system have been reported to the Committee in three successive years. Over that time little improvement has been made to the implementation of the systems and processes in place due to the difficulties in recruiting and retaining staff. Committee should consider including the need to improve debt management as an issue in the Annual Governance Statement. Further info is provided in para 3.12 of the main report, Appendix 1.

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

- the delivery of the annual internal audit plan;
- audit reports issued and issues of concern;
- implementation of agreed actions;
- details of the quality assurance and improvement programme; and
- Internal Audit's performance.

The Internal Audit & Risk Manager (IARM) continues to report functionally to the Corporate Governance Committee 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.

Quality Assurance and Improvement Programme

One of the major elements of the PSIAS is the quality assessment and improvement programme (QAIP). The IARM has maintained a QAIP throughout the year in accordance with the PSIAS. He has also undertaken a self-assessment review to evaluate Internal Audit's conformance with the PSIAS. This self-assessment did not identify any new areas of non-conformance, over and above the eight minor issues that were identified in 2015. Five of those eight issues have been addressed. The IARM is of the opinion that the Internal Audit Service operates in conformance to PSIAS.

Audit Charter

A review of the Internal Audit Charter has also been conducted. Changes were made to the PSIAS in April 2016 by the introduction of a *Mission of Internal Audit* and the *Core Principles for the Professional Practice of Internal Auditing*. The Audit Charter has been updated to reflect the ethos of the *Mission of Internal Auditing*. However no changes have been made to the Audit Charter to reflect the *Core Principles*. The IARM considers that these are already sufficiently covered.

RECOMMENDATION

It is recommended that the Committee:
1. Consider and comment upon the report;
2. Take into account the Internal Audit & Risk Manager's opinion when considering the Annual Governance Statement for 2015/16; and
3. Approve the Internal Audit Charter.

1. **PURPOSE OF THE REPORT**

1.1   This is the annual report of the IARM. It covers the period 1 April 2015 to 31 March 2016.

1.2   The report includes the IARM 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 Accounts and Audit (England) Regulations 2015 require the Council to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

2.2   The Public Sector Internal Audit Standards (PSIAS) require an annual report to be considered by the Committee as they fulfil the role of the Board (as defined by PSIAS). The PSIAS details the matters that are required to be included in the annual report.

3. **ANALYSIS**

Annual audit report

3.1   The PSIAS requires the annual report to incorporate:
   a)   The opinion
   b)   A summary of the work that supports the opinion; and
   c)   A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

3.2   The overall opinion of adequate assurance is unchanged from last year. The internal control environment is generally effective. The annual report para 3.11 details a number of control failings within the accounts receivable system. These or similar failings have been reported to the Head of Resources since March 2014 and audit reviews undertaken since that time have found very little improvement.

      The 2016/18 Corporate Plan includes within the 'Becoming a more efficient and effective Council' objective a work plan task of maximising Council income through effective asset management and collection activities. The action being to collect money that is owed. The failings within the accounts receivable system are such that it will be difficult to achieve that action in respect of general debts. For that reason and that the fact that a little assurance opinion has been given over the accounts receivable system for the past three year Committee should consider including the need to improve debt management as an issue in the Annual Governance Statement.

Quality Assessment And Improvement Programme

3.3   The Internal Audit & Risk Manager has maintained a quality assessment and improvement programme (QAIP) throughout the year in accordance with the PSIAS and undertook in May 2016 a self-assessment to evaluate Internal Audit's conformance with the PSIAS.

3.4   The self-assessment of 2013, the external independent assessment undertaken in 2014 and the self-assessment completed in 2015 did not identify any areas of concern or significant non-compliance issues. The May self-assessment

produced similar results, with no new issues of non-conformance being identified.

3.5 Action taken to deal with the eight issues contained in the 2015 QAIP action plan can be found in the annual Internal Audit Report at Annex D. Three of the eight issues have not been fully introduced and will be carried forward to the 2016/17 action plan.

3.6 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 Committee from the self-assessment review or require inclusion in the Annual Governance Statement.

Audit Charter

3.7 The PSIAS were updated in April 2016 to reflect changes introduced to the Institute of Internal Auditors International Professional Practices Framework (IPPF) – namely the introduction of the *Mission of Internal Audit* and *Core Principles for the Professional Practice of Internal Auditing*.

3.8 PSIAS states that the *Mission of Internal Audit* is **To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.** It is not proposed to include a similar mission statement in the Audit Charter, rather revise the current 'Purpose of Internal Audit' statement as follows:

> The Internal Audit Service has been established to:
>
> - provide independent, risk-based and objective assurance, advice and insight to the Council on its operations
>
> - enhance and protect value, by assisting management improve the delivery of the Council's objectives and operations through evaluating and challenging the effectiveness of risk management, control and governance processes.

3.9 In respect of the *Core Principles for the Professional Practice of Internal Auditing* PSIAS says that "the Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. Failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission.

- Demonstrates integrity.

- Demonstrates competence and due professional care.

- Is objective and free from undue influence (independent).

- Aligns with the strategies, objectives, and risks of the organisation.

- Is appropriately positioned and adequately resourced.

- Demonstrates quality and continuous improvement.

- Communicates effectively.

- Provides risk-based assurance.

- Is insightful, proactive, and future-focused.

- Promotes organisational improvement."

3.10 The introduction of the Core Principles has not led to any changes within the individual Standards that make up the PSIAS. Consequently, it is not felt that

the Audit Charter needs to be amended to address each of the Core Principles individually.

3.11 The opportunity has been taken to correct a small number of grammatical errors within the Audit Charter and to reflect language changes brought about through the introduction of the Corporate Plan 2016-2018. The amended Audit Charter is attached at Appendix 2.

4. KEY IMPACTS / RISKS

4.1 Failure to provide an annual report would lead to non-compliance with the PSIAS and require the matter to be reported in the Annual Governance Statement. This would not reflect well upon the Council's overall governance arrangements.

5. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

5.1 The annual report will be considered by the Panel during the preparation of the Annual Governance Statement.

6. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND / OR CORPORATE OBJECTIVES

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

7. RESOURCE IMPLICATIONS

7.1 There are no resource implications arising from this report.

8. REASONS FOR THE RECOMMENDED DECISIONS

8.1 In fulfilling its obligations under the PSAIS, the Committee is required to receive an annual report on the work of the Internal Audit Service. The outcomes of the report, particularly the annual opinion statement, will be included within the Council's annual governance statement.

9. LIST OF APPENDICES INCLUDED
Appendix 1 - Internal Audit Service annual report 2015/16
Appendix 2 - Audit Charter

BACKGROUND PAPERS
Internal Audit Reports
Internal Audit performance management information
PSIAS self-assessment

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Internal Audit Service
Annual Report
2015/16

1.   INTRODUCTION

1.1   This is the annual report of the Internal Audit & Risk Manager (IARM) as required by the Public Sector Internal Audit Standards (PSIAS). It covers the period 1 April 2015 to 31 March 2016.

1.2   The report includes the IARM'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 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 quality assessment and improvement programme.

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 2016 provide, with the exception of IT systems (were no work has been completed during 2015/16), adequate assurance over key business processes and financial systems.
>
> **David Harwood**
> **Internal Audit & Risk Manager**   May 2016

2.1   Assurance can never be absolute. The audit opinion reflects the current state of the internal control environment and systems of internal control across the Council and provide the Committee with an opinion for inclusion in the annual governance statement (AGS).

If significant changes occur to the internal control environment prior to the Committee approving the AGS statement the Committee will be informed.

2.2   In preparing the internal audit plan for 2015/16, 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 no other external assurances were identified for 2015/16. However the Cabinet Office have also provided assurance in respect of the Council's compliance with the Public Services Network requirements. The summary findings from these reports are included at Annex B

2.3   The IARM continues to report functionally to the Corporate Governance Committee 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 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 Corporate Governance Panel in March 2015 in respect of the year ending March 2016.

General audit

3.2   The plan consisted of 24 general reviews and quarterly key control reviews of five financial systems.

3.3   The audit plan was reviewed at the end of each quarter and updated to reflect changing priorities. The changes were discussed with both the Head of Resources and the Committee Chairman. The revised audit plan at 31 March 2016 contained 23 audits. At the time of preparing this report, three audits (bank reconciliation, Invest Huntingdonshire website development and implementation of policy initiatives) still required draft audit reports to be issued

Annex A contains details of the audits included in the internal audit plan at 31 March 2016.

IT audit coverage

3.4   No specialist IT audit work has been undertaken in 2015/16. Committee were informed of the reasons for this in December 2015. These were:
- Uncertainty over the employing authority for the IT shared service; and
- Possible alternative service delivery model for internal audit.

3.5   Whilst the lack of IT audit is of concern, 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 13 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. The summary findings are included at Annex B – other sources of assurance.

3.6   No decision has been taken on the future service delivery model for internal audit. However, if a shared service is to be developed with our 3C partners, it is clear that the internal audit teams do not have specialist expertise that could be used to undertake IT audit reviews. A tender exercise is currently underway for the provision of IT audit services. It is envisaged that contractors will be appointed and commence work by 1 October 2016.

Internal Audit Reports Issued

3.7   Audit reports that have been issued during the period April 2015 – March 2016 are listed in the table below, together with the assurance opinion (see Annex C for further explanation) and the number of agreed actions.

3.8 Four reviews from the 2014/15 audit plan were underway at the 31 March 2015. These have been completed and are included in the table below.

Audit area		Level of assurance				Agreed action status	
		Substantial	Adequate	Limited	Little	Red	Amber
Service contract: Bailiff enforcement	1508	✓✓					
Payroll: deductions *			✓			---	---
CCTV *			✓			1	3
Roles & duties of S151 & Monitoring Officer *			✓			---	2
Housing Benefit overpayments	1505		✓			---	3
Charging for Council services	1522		✓			---	4
Project management of the capital plan	1538		✓			---	4
Housing – homeless families	1521		✓			---	4
One Leisure: control of income *			✓			---	6
Payroll: payment processes	1516		✓			1	2
LGSS contract management **	1517		✓			1	3
One Leisure: management of staff	1507		✓			1	5
Compliance with the transparency code	1530		✓			1	7
Budgetary control/management information	1506		✓			2	6
Delivery of corporate and service plans **	1520			✗		---	4
Data quality & performance indicators **	1526			✗		---	6
Licencing	1540			✗		2	1
Effectiveness of Governance Boards **	1529			✗		2	5
Information security **	1533			✗		---	10
Data protection and information management **	1533			✗		---	10

* 2014/15 audit plan reviews. Reports issued in 2015/16.
** 2015/16 audit plan reviews. Draft reports issued at 31 March 2016.

3.9 In addition to the reports listed above, reviews have also been completed on the following areas.
- Community Chest grants
- Legal debt collection and recovery

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 five key financial systems has continued to be undertaken on a quarterly basis. 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		✓			--	--
Accounts payable (Creditors)		✓			--	--
Main accounting system		✓			--	--
Accounts receivable (Debtors)				✗✗	1	--

3.11   The accounts receivable system has been given little assurance for the third successive year. Whilst invoices are being raised for services being provided there are significant failings in the debt review and collection process. These include the Income Team failing to consistently undertake debt recovery work, some recurring billing invoices not being raised or raised late, no consistent pattern of referring outstanding debts to the recovery agents or Legal Services for further action, infrequent reporting to Services on their debtor position and infrequent reviews of disputed invoices. It is suggested that these failings are serious enough that this matter be referenced in the Annual Governance Statement.

3.12   The Head of Resources has been addressing the issues noted above during the past year. Committee will be aware that they were informed in the annual audit report last year, that a comprehensive and fundamental review of Incomes systems and procedures was to be undertaken with the intention being to introduce changes to the control environment which should resolve the weaknesses listed in para 3.11. Whilst some changes have been introduced, the Income Team have been hampered in embedding those changes by having to rely on temporary/agency staff – some of whom have only worked for two weeks or less before finding alternative work. A member of staff has recently been recruited on a fixed term basis to address this problem.

3.13   Whilst an audit review is due to be completed in respect of the quarter ending June 2016, this will not be done as it is likely that little improvement will have been made. The review for September 2016 will be completed however and reported to the Committee at its December 2016 meeting.

Other review areas

3.14   Internal Audit have also undertaken significant work in a number of other areas. These include:

- A review of the contractors final account for the redevelopment of One Leisure St Ives. It is anticipated that the overall construction cost will reduce as a consequence of the review
- Reviewing the tender and quote opening procedure
- Attending 10 quotation openings
- A review of the data matches identified from the National Fraud Initiative

- Updating the Anti-Fraud and Corruption Strategy
- Updating the Whistleblowing Policy and Procedure
- Undertaking three staff investigations
- Responding to whistleblowing complaints
- Supporting the Committee in the annual governance review, the preparation of the Annual Governance Statement and its annual report

In addition, a significant amount of time has been spent on supporting the Monitoring Officer in their review of two complaints relating to Parish Council matters.

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

4.1 Whilst there have been a number of limited assurance reports issued during the year, there are no issues of specific concern that need to be brought to the attention of the Committee.

5. IMPLEMENTATION OF AGREED ACTIONS

5.1 CMT have set a target of 100% of agreed actions to be implemented on time, based on a rolling 12 month timeframe. As at the 31 March 2016 the figure achieved was 63% (36 actions from a total of 57). This increases to 75% (43 actions from a total of 57) when actions implemented on time and late are combined.

5.2 Of the 43 actions that had been marked as fully introduced by the appropriate manager, follow-up reviews have been completed by internal audit on 35 of these actions. This review found that:
- 28 had been fully introduced
- 4 had been partially introduced; and
- 3 had not been introduced.

Of the three actions that had been marked as being fully introduced when evidence suggests that appears not to be the case, one was a 'red' category action, the other two, 'amber'. All three actions have been amended on the 4action monitoring system - from fully introduced to outstanding. CMT and the relevant Head of Service have been informed.

6 LOW GRADED AUDITS FROM PREVIOUS YEARS

6.1 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		
2014-15				
Limited	3	3	**Staff Training** All the actions have been introduced.	Adequate
Limited	3	6	**One Leisure: Impressions** 8 of the 9 actions have been introduced. The one outstanding red action refers to the development of strategies and targets for the Impressions facility.	Adequate
Limited	0	2	**Service desk, change & release management** The two actions have not been introduced, but they have an agreed implementation date of December 2016. Both actions require considerable changes to be made to working methods. These changes will be introduced as part of the IT shared service developments. This area will be subject to further follow-up work during 2016/17.	Limited
Limited	1	1	**E-payments** Neither of the actions have been introduced. The red action refers to completing and submitting to our payment card provider, a payment card industry security standard self-assessment.	Limited
Limited	1	6	**Uniform application** The one red action and 4 of the amber actions have been introduced. The two outstanding actions are not due to be introduced until December 2016.	Adequate

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   As an independent external assessment was conducted in 2014 the IARM decided to undertake a self-assessment review this year. This was completed in May 2016. It did not identify any areas of non-conformance other than three areas that had been identified during the self-assessment review of 2015.

These are:
1. Establishing policies and procedures to guide staff in performing their duties
2. Regularly reviewing and updating policies and procedures to reflect changes in working practices and standards
3. Carrying out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance

7.3   The first two items above refer to the need to update the audit manual to reflect changes to established policies, procedures, working practices and

standards. Due to time pressures, the audit manual is not updated as regularly as it should be. Auditors are however made aware of all changes to policies, procedures, working practices and standards by the IARM at their fortnightly team meetings and through email instruction.

The remaining issue refers to the need to undertake an assurance mapping exercise as part of identifying and determining internal audits approach to using other sources of assurance during the audit planning process. This has been addressed in part through work that internal audit undertook in preparing the 2014/15 Annual Governance Statement and from the information held within the risk register. It needs to be formalised however so that the IARM can derive greater benefit from the information during the annual audit planning process.

7.4 Action taken to address the areas of non-conformance identified from the 2015 PSIAS are included at Annex D. It is expected that the three items listed in para 7.2 will be addressed during 2016/17.

7.5 None of the issues identified during the self-assessment review suggest that the Internal Audit Service is not complying with the PSIAS.

7.6 In addition to undertaking a review against the PSIAS, Internal Audit also maintains a series of internal performance targets. These are prepared and reported quarterly within the teams Service Plan. The performance as at 31 March 2016 is detailed below.

7.7 **Customer satisfaction**

Target:　85% or more of customers rating service quality as good or better.
Achieved:　12 months to March 2016 – 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.

7.8 **Service delivery targets**

Target:　The four service delivery targets are achieved.
Achieved:　Two of the targets have been 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 2016/17. They are both challenging and achievable with managers co-operation.

	Target	Achieved March 2016	2015
a) Complete audit fieldwork by the date stated on the audit brief.	75%	↓ 53%	46%
b) Issue draft audit reports within 15 working days of completing fieldwork.	90%	↓ 89%	87%

c) Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report.	75%	↑ 84%	87%
d) Issue final audit report within 5 working days of receiving full response.	90%	↑ 100%	92%

7.9 Target a) above has not been achieved although performance has improved since last year. Committee challenged the poor performance in this area at their December 2015 meeting. It was explained at that time, that the failure to meet the target was primarily due to the cancellation of meetings by auditees, often at short notice. As two of the three auditors were not full time employees, this had adverse effect on their ability to meet the target date.

The Head of Resources has contacted all Managers to remind them of the importance of meeting auditors at the times agreed. It is anticipated that performance will continue to improve during 2017/18.

Annex
- A. Status of audits as per the audit plan agreed
- B. External assurance received
- C. Definitions used in the report
- D. Improvement Plan from June 2015 QAIP review

David Harwood : Internal Audit & Risk Manager
Huntingdonshire District Council
June 2016

**Status of audits as per the audit plan agreed
by Corporate Governance Panel in March 2015.**

Audits undertaken

1   Data protection and information management
2   Housing – homeless families
3   Compliance with the Transparency Code
4   Budgetary control and management information
5   Housing Benefits (overpayments)
6 & 7   Review of 2 x service & supply contract (Bailiff enforcement (completed) & Invest Huntingdonshire website development (draft report, May 2016))
8   Data quality and performance indicators
9   Community Chest grants
10   Payroll
11   One Leisure
12   Delivery of corporate and service plans
13   Charging for Council services
14   Legal debt collection and recovery
15   LGSS contract management
16   Effectiveness of the Governance Boards
17   Bank reconciliation (draft report, May 2016)
18   National fraud initiative

Quarterly key control reviews of financial systems:
  Main accounting system
  Creditors (accounts payable)
  Debtors   (accounts receivable)
  Council tax and business rates

Audits not undertaken

19   Delivery of affordable housing – initial work undertaken but stopped as Corporate Director (Delivery) and Head of Service already addressing a number of risks that had been identified around land supply and new build targets.
20   Delivery of the 'Facing the Future' programme – savings included in medium term financial strategy which is reviewed separately.
21   S106 Agreements – postponed until new IT software in place.
22   Shared Services – IT, Building Control and Legal. Some advisory work undertaken. ITSS audit planned to commence in Feb 2016 but postponed due to structures not finalised and process changes being introduced.
23   Staff appraisal scheme – postponed due to significant changes being introduced from April 2016.
24   Achievement of VFM and service standards – no time available.

Additional audits undertaken, not in the original 2015/16 audit plan

19   Licensing
20   Project management of the capital plan
21   One Leisure St Ives – final account review
22   Information security
23   Implementation of policy initiatives

External Assurance Received

Date	Report from	Area covered	Assessment
November 2015	Cabinet Office	Public Services Network (PSN) compliance	Certificate of compliance issued (expiring 13 November 2016)
November 2015	External Auditor (PricewaterhouseCoopers)	Annual Audit Letter 2014/15	Unqualified accounts. Unqualified value for money opinion.
March 2016	-----	----	Grant Certification Report 2014/15	One grant certified: BEN01 Housing and Council Tax Benefit Subsidy - qualified.

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Assurance definitions: for information

Substantial Assurance	✔✔	*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.*
Adequate Assurance	✔	*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.*
Limited Assurance	✗	*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.*
Little Assurance	✗✗	*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 meetings its objectives.*

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 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.

Improvement Plan from June 2015 QAIP review

PSIAS Ref.	Requirement	Issue identified	Action taken	Carry fwd. to 2016/17 Yes / No
Attribute Standard 1000: Purpose, Authority and Responsibility				
1110	Does the Managing Director undertake, countersign, contribute feedback to or review the performance appraisal of the Internal Audit Manager?	The Managing Director has been asked to contribute feedback to the Internal Audit & Risk Managers 2015 appraisal.	Feedback received 16 July 2015. Feedback requested for 2016.	No
1110	Is feedback sought from the chair of the Corporate Governance Panel (CGP) for the Internal Audit Manager's performance appraisal?	The Chairman of CGP for the 2014/15 municipal year stood down as a Councillor in May 2015. This was prior to the annual appraisal process commencing. The current Chairman will be asked to contribute to the 2015/16 appraisal review.	Feedback received 12 April 2016.	No
1130	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	With the introduction of 'continuous auditing' in Sept 2012, auditors are allocated a number of key financial areas to review. Whilst rotation of audits did occur from July 2015, an auditor vacancy in October 2015 meant that the audits had to be re-assigned back to the previous auditor.	The audit team is at full strength. The audits have been reassigned for 2016/17.	No
Attribute Standard 1200: Proficiency and Due Professional Care				
1130	Do internal auditors have sufficient knowledge of key information technology risks and controls?	The contract for the provision of IT audit services ended in January 2015. A new contract is required.	The contract is currently out to tender. Expected start date, October 2016.	No

Improvement Plan from June 2015 QAIP review

PSIAS Ref.	Requirement	Issue identified	Action taken	Carry fwd. to 2016/17 Yes / No
Attribute Standard 2000: Managing the Internal Audit Activity				
2040	Has the Internal Audit Manager established policies and procedures to guide staff in performing their duties in a manner that conforms to the PSIAS? Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?	The audit manual outlines the procedures to be followed. It needs to be updated to reflect the changes brought about by the PSIAS. New Auditing Standards are to be issued in July 2015 and it is likely that these will result in further changes to the PSIAS and the audit manual. The policies and procedures need to be updated on a more regular basis.	Auditors are informed of changes to working procedures and polices via team meetings and email instructions. The audit manual is not routinely updated. The audit manual will need to be fully revised if a shared service is developed and it is proposed that the current update process is followed until then.	Yes. This will be an on-going project.
2050	Has the Internal Audit Manager carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	Sources of assurance other than from internal audit are included in the internal audit annual report. CGP agreed to undertake assurance mapping to assist with the annual governance process. It is anticipated assurance mapping will used as part in preparation of the 2014/15 annual governance statement.	Internal audit have undertaken some work on formalising the assurance framework to support the annual governance process. This will need to be reviewed during 2016/17 to take account of revised national good governance guidance.	Yes

Improvement Plan from June 2015 QAIP review

PSIAS Ref.	Requirement	Issue identified	Action taken	Carry fwd. to 2016/17 Yes / No
Attribute Standard 2100 : Nature of Work				
2120	Has the internal audit activity evaluated the potential for fraud and also how the Council itself manages fraud risk?	This requirement is not the responsibility of the Internal Audit Service. There has been a significant change to the Council's fraud team. A revised counter fraud strategy was approved by CGP in June 2015. This will require a formal action plan to be prepared for identifying and evaluating the potential for fraud. This is being led by the fraud team. Internal Audit will be involved with that process.	The Committee received a report in December 2015 from the Benefits Manager that contained details of the fraud action plan An internal audit review of how the Council manages fraud risk is included within the 2106/17 audit plan.	No

Huntingdonshire
D I S T R I C T   C O U N C I L

Internal Audit Charter

INTERNAL AUDIT CHARTER   *Effective June 2016*

The Council considers its Internal Audit Services to be a key component of its governance framework. This Charter provides a framework for the conduct of Internal Audit in Huntingdonshire District Council and has been approved by the Council's Corporate Governance Committee.

The key provisions of this Charter are set out below.

Internal Audit Service

The Council's internal audit service is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Independence & Objectivity

The internal audit service will remain free from interference by any element in the Council and its scope shall not be restricted in anyway. It shall be free to review the arrangements of any aspect of service delivery, finance or governance irrespective of whether those arrangements are provided directly or indirectly (via partnerships, contractually or any other business arrangement).

The objectivity, impartiality, integrity and conduct of all Internal Audit staff must be above reproach at all times.

Authority

Internal auditors are authorised to have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the Internal Audit & Risk Manager considers necessary to enable the Internal Audit Service to meet its responsibilities. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.

Confidentiality

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for the conduct of internal audit activities. The Internal Audit & Risk Manager and individual audit staff (including contractors and external service providers performing work on behalf of internal audit) are responsible and accountable for maintaining the confidentially of the information they receive during the course of their work.

Reporting

The Internal Audit & Risk Manager shall submit to the Corporate Governance Committee, no later than the date at which the Council's annual governance statement is approved, an annual report and formal audit opinion.

Purpose of Internal Audit

The internal audit service has been established to:

- provide independent, risk-based and objective assurance, advice and insight to the Council on its operations.

- enhance and protect value, by assisting management in improving the delivery of the Council's objectives and operations through evaluating and challenging the effectiveness of risk management, control and governance processes.

Professionalism

The internal audit service will govern itself by adhering to the Public Sector Internal Audit Standards (PSIAS)[1] as required by the Accounts and Audit (England) Regulations 2015.

Supplementary guidance issued and endorsed by the Relevant Internal Audit Standard Setters as applying to local government will also be adhered to along with the Council's relevant policies and procedures and the internal audit manual.

Non-conformance with the PSIAS shall be reported to senior management and the Corporate Governance Committee.

Relationship with Members & Senior Management

Corporate Governance Committee

The Accounts & Audit (England) Regulations 2015 require the Council to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

The Council has established a Corporate Governance Committee[2] and specifically delegated to it responsibility for 'ensuring there are effective arrangements for the system of internal audit of the Council." The internal audit service shall report functionally to the Corporate Governance Committee.

The Internal Audit & Risk Manager shall have:
- free and unrestricted access to the Corporate Governance Committee and the right to attend all of its meetings, and
- the right to meet with the Chairman of the Corporate Governance Committee and/or the relevant Portfolio Holder to discuss any matters or concerns that have arisen from internal audit work.

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[1] The PSIAS are based upon The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*.
[2] The Corporate Governance Committee shall fulfil the role of the Board as determined by the PSIAS.

Senior Management

The Managing Director and the Corporate Director (Services) and the Corporate Director (Delivery) together with the Head of Resources[3] shall fulfil the role of senior management as defined by the PSIAS.

The Head of Resources shall support the Corporate Governance Committee by ensuring that there are effective arrangements[4] for the internal audit of the control environment.

The Internal Audit & Risk Manager shall:
- report administratively to the Head of Resources; and
- have free and unrestricted access to senior management.

Independence & Objectivity

Independence is essential to the effectiveness of the internal audit service; so it will remain free from interference in all regards. This shall include, but not be limited to matters of audit selection, scope, procedure, frequency, timing or report content.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Internal Audit & Risk Manager will confirm to the Corporate Governance Committee annually, the organisational independence of the internal audit service.

The Internal Audit & Risk Manager is responsible for the delivery of the Internal Audit, Insurance and Risk Management services. All three areas have a key part to play in mitigating the risks facing the Council. Responsibility for these operational areas is recognised by senior management and the Corporate Governance Committee.

With the exception of insurance and risk management, internal audit staff will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.

Authority & Confidentiality

Internal auditors shall have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the Internal Audit & Risk Manager considers necessary to enable the Internal Audit Service to meet its responsibilities. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. The Internal Audit & Risk Manager and individual audit staff (including contractors and external service providers performing work on behalf of internal audit) are responsible and accountable for

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[3] Fulfilling the duties of Section 151 of the 1972 Local Government Act
[4] As outlined in the Cipfa publication "The Role of the CFO in public sector organisations".

maintaining the confidentially of the information they receive during the course of their work.

Internal Audit Management

The Council shall appoint an Internal Audit & Risk Manager who shall determine the priorities of, effectively manage and deliver the internal audit service in accordance with this Charter.

The Internal Audit & Risk Manager shall:

- ensure they have a comprehensive understanding of the Council's systems, structures and operations so allowing the preparation of strategic and annual risk based audit plans that are closely aligned to the need to provide assurance against the Council's strategic priorities, objectives and risks, as contained or identified within its Corporate Plan, Service Plans, risk register and framework of assurance.
- review and adjust the plans as necessary, in response to changes in the Council's risks, operations, programs, systems and controls.
- report annually the impact and consequence of any resource limitations across the strategic plan period to the Corporate Governance Committee, who will then recommend to Cabinet whether or not to accept the consequence identified or seek an increase in Internal Audit's resources.
- maintain a quality assurance and improvement programme to ensure that all audit work is completed to high standards and in accordance with the standards, practices and procedures as set out in the internal audit manual .
- undertake an annual review of the development and training needs of internal audit staff and arrange for appropriate training to be provided.
- put in place arrangements that ensure internal audit is notified of all suspected or detected instances of non-welfare fraud, corruption or impropriety and in conjunction with the Corporate Fraud Team Leader:
    - promote a counter-fraud culture within the Authority
    - determine the most appropriate method of investigating allegations.
- establish effective relationships with managers at all levels.

Role and responsibilities

Internal audit reviews shall examine and evaluate the adequacy and effectiveness of the Council's governance, risk management, and internal control processes. This shall be achieved via:

Assurance activities: *results of which will influence the opinion on the adequacy and effectiveness of the control environment.*

Risk based system audit reviews. The documentation, evaluation and testing of financial, operational and management information systems.

Information technology reviews. Specialist evaluation of hardware, software and the IT environment.

Fundamental financial systems. Reviews focusing on agreed key controls.

Performance improvement. The economy, efficiency and effectiveness of business systems and processes.

Advisory activities: *results of which will contribute to the opinion on the adequacy and effectiveness of the control environment.*

Systems & processes. Control advice on new and developing systems.

Consulting services. Reviews at the request of management, that add value and improve governance, risk management and control processes and support management in their work.

Shared services:

Where the Council provides 'shared services' to, or receives 'shared services' from other organisations, the Internal Audit & Risk Manager shall liaise with the other organisations Internal Audit Service and agree the scope of the assurance that is to be provided or received and take account of that requirement when preparing the annual audit plan.

Reporting and Monitoring

Internal Audit Reports
At the conclusion of a review, a written report will be issued to the appropriate manager, that will
- include an overall assurance opinion, but not provide absolute assurance, on the adequacy of the governance, risk and control processes;
- identify inadequately addressed risks and non-effective control processes;
- detail management's response and timescale for corrective action;
- identify issues of good practice

When corrective action has not been agreed, reporting will be escalated to a level consistent with the Internal Audit & Risk Manager's assessment of the risk.

The Internal Audit & Risk Manager shall regularly review and report to senior management, the progress made by managers in introducing the agreed corrective actions. Senior Management shall ensure that agreed corrective actions are introduced.

Reporting to the Corporate Governance Committee

The Internal Audit & Risk Manager shall present an annual and interim report to the Corporate Governance Committee that meets the requirements of the PSIAS. The annual report shall be timed to support the Council's annual statement of assurance on corporate governance and include an opinion on the overall adequacy and effectiveness of the control environment.

Quality and assurance programme

The Internal Audit and Risk Manager shall maintain a quality assurance and improvement programme that meets the requirements of the PSIAS. The results shall be reported to senior management and the Corporate Governance Committee.

The Internal Audit & Risk Manager will arrange for an independent review of the efficiency and effectiveness of the internal audit service to be undertaken at least once every five years. The results of the review will be reported to senior management and the Corporate Governance Committee.

Improvement plans arising from periodic reviews of internal audit shall be prepared as appropriate, and reported to senior management and the Corporate Governance Committee in the Internal Audit annual report.

Relationships with external audit and other assurance activities

Internal Audit will establish and maintain an open relationship with the external auditor and any other assurance provider. Internal audit will plan its activity so that there is adequacy of audit coverage and to minimise duplication of assurance effort. However the work of Internal Audit will not be driven by external audit's own priorities.

External audit will have full and free access to all internal audit strategies, plans, working papers and reports.

Review of the Charter

The Internal Audit & Risk Manager will review annually the Internal Audit Charter and report the outcome of that review to the Senior Management. Approval of the Charter shall be the responsibility of the Corporate Governance Committee. This version was approved on the 8 June 2016.

End