

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Internal Audit Service: Interim Progress Report
Meeting/Date:	Corporate Governance Committee – 7 December 2016
Executive Portfolio:	Strategic Resources: Councillor J A Gray (Deputy Executive Leader)
Report by:	Internal Audit & Risk Manager
Wards affected:	All Wards

Executive Summary

This report details the work completed by the Internal Audit Service during the period April to October 2016 and associated performance issues.

The Internal Audit & Risk Manager's opinion on the Council's internal control environment and systems of internal control as at 31 March 2016 was that it provided adequate assurance over key business processes and financial systems. From the work that has been completed since, that opinion remains unchanged.

During the reporting period it should be noted that:

- 1 'substantial', 8 'adequate' and 8 'little' assurance opinions were issued. Eight of the reports related to the 2015/16 audit plan.
- Changes have been required to the audit plan, resulting in the removal of seven and addition of two audits. The net removal of five audits is due to a substantial amount of additional time being spent on preparing the shared service business case, completing audits from the 2015/16 plan and additional work having to be completed on three audit areas.
- Two of the four service performance targets have been met.
- 100% of customers who returned 'end of audit' survey forms rated the value of the audit undertaken as good or very good.
- An IT audit partner, BDO, have been appointed and delivered two of their seven planned audits.
- 4Action, a commercial product that allows for real-time updating and reporting on the implementation of audit actions, went live in April 2016.

In accordance with the Internal Audit Charter, the Internal Audit & Risk Manager continues to report functionally to the Corporate Governance Committee 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.

At the September meeting, Committee rejected plans for the formation of a shared internal audit service across the 3Cs. The Cabinet subsequently agreed and deferred making a decision as to whether to establish a shared internal audit service to a later date.

Recommendations:

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

1. The Internal Audit & Risk Manager's unchanged opinion of 'adequate assurance' over the internal control environment and system of internal control;
and
2. The internal audit plan as agreed by Committee in March 2016 is unlikely to be fully delivered this year.

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 2016.

2. WHY IS THIS REPORT NECESSARY/BACKGROUND

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require that the Committee (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 Committee aware of any issues of concern that have been identified and the progress achieved with the delivery of the audit plan.

3. ANALYSIS

- 3.1 The progress report (April-October 2016) on the Internal Audit Service is attached at Appendix A.
- 3.2 The September 2016 Committee meeting considered a business case that proposed that the Internal Audit Service become part of an internal audit shared service across the 3Cs. The Committee did not support the proposal; neither did the Cabinet when they considered the business case report at their October meeting. The Cabinet resolved to not proceed with the business case for the establishment of a Shared Audit Service, [and] for the matter to be considered at a later date.
- 3.3 No further work on the shared service initiative has been undertaken. The internal audit team were generally supportive of moving into a shared service but the certainty of that change has been replaced with varying levels of anxiety, as it is unclear how internal audit will be provided in the future.

4. KEY IMPACTS. HOW WILL THEY BE ADDRESSED?

- 4.1 There has been a net reduction of five audits within the audit plan to date. Non delivery of a substantial part of the internal audit plan may affect the ability of the Internal Audit & Risk Manager to provide the Committee with an opinion on the internal control environment. If this did occur, it would require including in the Annual Governance Statement. Whilst this is unlikely at the current time, any opinion would have to be provided with caveats if insufficient audit reviews were completed.
- 4.2 Projections of auditor time available to 31 March 2017 show that it is unlikely that the five audits removed from the plan will be completed. It should also be noted that due to changing risks and priorities the five audits that have been removed may not be automatically included in next year's plan.

5. LINK TO THE CORPORATE PLAN

- 5.1 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.

6. LEGAL IMPLICATIONS

6.1 There are no legal implications arising from this report.

7. RESOURCE IMPLICATIONS

7.1 There are no resource implications arising from this report.

8 REASONS FOR THE RECOMMENDED DECISIONS

8.1 The report is for information purposes and to allow Committee to gain an understand of the views of the Internal Audit & Risk Manager on the internal control environment and systems of internal control.

LIST OF APPENDICES INCLUDED

Appendix A – Internal Audit Interim Progress Report

BACKGROUND PAPERS

Internal Audit reports
Internal Audit performance management information

CONTACT OFFICER

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INTERNAL AUDIT SERVICE

Interim Progress Report : April To October 2016

1. DELIVERY OF THE 2016/17 AUDIT PLAN

- 1.1 Committee approved the Internal Audit Plan (consisting of 31 reviews and 5 continuous audit areas, audited quarterly) at its March 2016 meeting.
- 1.2 During the period, the Internal Audit Service has had a full complement of staff. The auditor recruited on a temporary post in June 2015 was made permanent in May 2016.
- 1.3 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, so ensuring that audit time is spent reviewing the most appropriate areas or (as this year) take account of unplanned additional time being spent on audit reviews. This year the plan has also had to be amended to take account of unplanned additional time being spent on completing six reviews – three from the 2015/16 and three from this year's plan.
- 1.4 The amount of unplanned time spent by the Internal Audit team exceeds 80 days. This is exceptional. The audit plan always contains a contingency allowance (20 days) to deal with unforeseen events, however this has proved inadequate this year. The main areas in which unforeseen time has been spent are as follows:

Preparing the internal audit shared services business plan	26 days
Completing 2015/16 audit plan reviews: 3 reviews	15
Undertaking on behalf of the Corporate Director (Delivery) a review of staff restructuring processes and procedures	12
Audit reviews of:	
Overtime	10
Flexi-time Management & Work-life Balance	7
Management of Ill Health & Sickness	7

As result of the time having been spent on the areas above it has been necessary to review the audit plan and remove five audits:

- Lean processes
- Housing – Choice-based Lettings
- Business Continuity
- Equipment Servicing
- Elected Member development

In addition two audits have been removed from the plan and alternatives introduced.

Removed

S.106 Agreements
Management of Health & Safety

Added

Capital plan programming within Services
Legal – management of debt recovery

All changes to the audit plan have been notified to the Committee Chairman and discussed with him.

- 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 final audit reports have been circulated to the Committee by email.

Audit area	Level of assurance ¹				Agreed action status	
	Substantial	Adequate	Limited	Little	Red	Amber
Marketing Strategy & Branding contract *	✓				---	---
LGSS contract management *		✓			1	3
Overtime		✓			1	3
Management of Ill Health & Sickness		✓				9
Management of Vacancies		✓				5
Project Management of the Capital Plan *		✓				4
Bank Reconciliation *		✓				4
Housing Benefits **		✓				1
Planning Application & Development Control Fees		✓			---	---
Flexi-time Management & Work-life Balance			✗		3	4
Effectiveness of the Governance Boards			✗		2	4
Data Protection & Information Management *			✗			10
Information Security *			✗			10
Data Quality & Performance Indicators *			✗			4
Corporate Plan & Service Plans *			✗			4
IT Audits						
Cyber Security **			✗		2	3
Business Application Security **			✗		1	3

¹ Annex A contains information that explains the four assurance levels.

* 2015/16 audit plan reviews. Reports issued in 2016/17.

** 2016/17 audit plan reviews. Draft reports issued at 31 October 2016.

- 1.6 The table above 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;
- Financial Management System (FMS);
- 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 The September quarterly review of the Accounts Receivable (Debtors) system has been completed. This has shown that the agreed key controls are generally effective. Whilst some improvements are still required there has been an

improvement in control compliance. These findings correspond with the statement the Head of Resources made at the September meeting when he presented a specific report on the management of debt.

- 1.8 The 3C Councils have jointly purchased a new FMS – Technology One – to replace each Council’s current FMS. Whilst the systems will run and be managed independently of one another, to make best use of internal audit resources across the 3Cs, internal audit are working with internal audit colleagues at Cambridge City Council (who are lead internal auditors on the Technology One project) to review the controls and new working practices that are to be introduced to support Technology One. A new set of key controls will need to be introduced when the Technology One FMS goes live in April 2017.

The new FMS will be hosted in the ‘cloud’ and BDO are due to undertake a review of cloud security, to ensure that it is being hosted in a safe and secure environment. Audit reports arising from these reviews will be shared across the 3C internal audit teams so that they can be considered as part of the process for delivering the annual internal audit opinion.

- 1.9 Internal Audit has also completed work in a number of other areas. The main areas of note are:

- Identifying areas of non-compliance across the Council (overtime, flexi management, sickness, annual leave, expenses etc.) to assist Corporate Office staff prepare for the newly introduced Managers’ Forums
- Continued involvement in agreeing the contractors final account for the redevelopment of One Leisure St.Ives
- Supporting the Corporate Governance Committee in the annual governance review, the preparation of the Annual Governance Statement and its annual report
- Review of the Whistleblowing Policy and Procedure
- Responding to whistleblowing complaints
- On behalf of the Corporate Director (Delivery) undertaking a review of staff restructuring processes and procedures
- Home Improvement Agency works tender and liaison with Cambridge City Council
- Assurance mapping update
- Attending the Social Media Group and Sickness Focus Group to provide them with advice and insight into the findings from audit reviews
- Attendance at quote openings
- Developing a new Code of Corporate Governance

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

2. IT AUDIT

- 2.1 No IT audit contract was in place when the 2016/17 Internal Audit Plan was approved in March 2016. The Committee were informed at their September meeting that following a competitive tendering exercise BDO had been appointed IT auditors until March 2019. The Committee also agreed the IT audit plan at their September meeting.

- 2.2 BDO have issued two draft IT audit reviews, both with limited assurance. It is anticipated that they will complete a further five reviews this financial year.

3. IMPLEMENTATION OF AGREED ACTIONS

- 3.1 A separate report on the implementation of agreed audit actions for the year to 31 October 2016 is included on the Committee's agenda.
- 3.2 A sample of actions that have been marked by Managers as fully introduced within 4Action have been reviewed to ensure they are working effectively. All 13 actions reviewed were found to have been introduced.
- 3.3 The new 4action (audit action database) system went live in April 2016 and allows managers to self-monitor their agreed actions. However, the system reminders function did not work properly until mid-October. Consequently, time had to be spent on regularly reminding Managers that actions were due for implementation.

4. ISSUES OF CONCERN

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

5 INTERNAL AUDIT'S PERFORMANCE

- 5.1 Details of Internal Audit's 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 2016 – 100% (from 13 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. Performance 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				
		@ 10/14	@ 10/15	@03/16	@10/16	
a) Complete audit fieldwork by the date stated on the audit brief.	75%	60%	33%	53%	58%	✘
b) Issue draft audit reports within 15 working days of completing fieldwork.	90%	70%	92%	89%	63%	✘

c) Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report.	75%	95%	77%	84%	82%	✓
d) Issue final audit report within 5 working days of receiving full response.	90%	85%	90%	100%	100%	✓

Annex A : Definition of the levels of assurance

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>

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Huntingdonshire District Council
November 2016