

**HUNTINGDONSHIRE DISTRICT COUNCIL**

<b>Title/Subject Matter:</b>	Internal Audit Service: Interim Progress Report
<b>Meeting/Date:</b>	Corporate Governance Committee – 17 January 2018
<b>Executive Portfolio:</b>	Strategic Resources: Councillor J A Gray
<b>Report by:</b>	Internal Audit & Risk Manager
<b>Wards affected:</b>	All Wards

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**Executive Summary**

This report details the work completed by the Internal Audit Service during the period April to November 2017 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 2017 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', 4 'adequate' and 3 'little' assurance opinions were issued. There are no matters of significant concern arising from these reports that need to be brought to the Committee's attention.
- 24 audits are still to be completed. Fieldwork or report preparation is underway on 8 of these. BDO, the Council's contracted audit partner have agreed start dates for a further 10 audits.
- One audit – cash flow management - has been removed from the agreed audit plan.
- Three 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 Internal Auditor resigned in November 2017 and subsequently the post has been identified as a saving in the 2018/19 draft revenue budget. Options are being developed around how changes in ways of working can mitigate this and maintain and enhance effectiveness.

**Recommendations:**

It is recommended that the Committee in considering the report, comment on the Internal Audit & Risk Manager's unchanged opinion of 'adequate assurance' over the internal control environment and system of internal control.

## **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 November 2017.

## **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**

### **Staffing**

- 3.1 The Internal Audit team comprises 3.13 full time equivalent (fte) staff. This is made up of 1.00 fte Audit & Risk Manager, 1.86 fte auditors and 0.27 fte specialist IT audit provided under contract.
- 3.2 One fte auditor was seconded in February 2017 for one year to the Transformation project. This was a significant loss of resources and the Committee were informed that BDO LLP (our IT audit partner) were being appointed to deliver 140 general audit days to mitigate the loss of the seconded auditor. The 2017/18 audit plan approved by the Committee on 22 March 2017 was based on the Internal Audit service delivering 412 audit days.
- 3.3 The seconded auditor resigned in November 2017. Due to the Council's financial position, the post has been identified as a potential saving and is included as such in the 2018/19 draft revenue budget due to be discussed by Overview & Scrutiny Panel (Performance and Customers) on 10 January.
- 3.4 The Internal Audit team are currently developing proposals around how some aspects of their work could be delivered differently and where alternative resources could be utilised to ensure effectiveness is maintained and where possible enhanced.

### **2017/18 audit plan delivery**

- 3.5 Committee approved the Internal Audit Plan (consisting of 30 reviews) at its March 2017 meeting. Audit reports that have been issued in the reporting period are listed below together with the assurance opinion that has been given.

Audit area		Action type & No.	
		Red	Amber
<b>Substantial<sup>1</sup></b>			
	Assets of community value		2
<b>Adequate</b>			
	IT Governance	---	---
	Payroll		5
	IT Project Management		5
	Hornbill – 3CITSS service desk application		6
<b>Limited</b>			
	Repairs and maintenance of operational property & equipment <sup>2</sup>	3	4
	One Leisure – Membership and Income		10
	Employee probationary period management		5
<b>No opinion given</b>			
	National fraud initiative data matching: review of potential frauds or irregularities.		

3.6 The position as at 30 November 2017 regarding the delivery of the approved audit plan is shown below. It is anticipated that all the audits will be completed by or shortly after 31 March 2018.

#### Reviews underway

- Client management of shared services
- Countryside services
- S106 Agreements
- Community infrastructure levy
- Procurement - Contract management
- Management of health & safety
- Refuse and kerbside waste collection
- IT: Network security

#### Reviews to commence

- Commercialisation – governance arrangements
- Ethical standards
- Commercial rents & estate management
- Compliance with the Code of Procurement
- Apprenticeships
- BDO One Leisure – Bars & catering
- Contract reviews:
  - Civic Suite audio replacement
  - One Leisure energy management
- Housing benefits
- Environmental Health – regulatory activities
- Use of Consultants and compliance with IR35 legislation
- Staff and external communications
- Grounds maintenance and street cleaning
- IT: Data protection and GDPR compliance
- IT: Financial management system application

BDO



<sup>1</sup> Appendix A contains information that explains the assurance levels.

<sup>2</sup> Draft report issued at 30 November 2017.

- 3.7 One audit from the originally approved plan has been postponed until 2018/19 – cash flow management. This is primarily due to pressure on Resources staff and their need to concentrate on delivering the new FMS application.
- 3.8 Quarterly reviews of the key controls within the main financial systems were also planned to be completed:
- Council Tax and National Non Domestic Rates;
  - Financial Management System (FMS);
  - Accounts Payable (creditors);
  - Accounts Receivable (debtors).

The new FMS, Technology One (T1), was expected to be operational from April 2017 and internal audit key control reviews of the main accounting system, and associated creditor and debtor elements had been planned for the T1 system. The postponement of the go-live date for T1 created an on-going issue as to whether or not the quarterly reviews should be undertaken on the current [old] systems. The Internal Audit & Risk Manager decided not to complete these reviews. However, as T1 is now planned to go-live from April 2018, it has been decided that reviews of the current [old] systems will be undertaken as at December 2017. These reviews are due to commence in January 2018.

- 3.9 In addition to the delivery of the audit plan, Internal Audit has also completed work in a number of other areas. The main areas are:
- Reviewing the newly introduced online disclosure and barring service process.
  - Investigating missing cheques received by the Document Centre.
  - Assisting 3C ICT with information asset identification in preparation for the introduction of the General Data Protection Regulations (GDPR) In May 2018.
  - Providing guidance on newly introduced Public Health Funeral procedures.
  - Preparing the Code of Corporate Governance and 2016/17 annual governance statement.

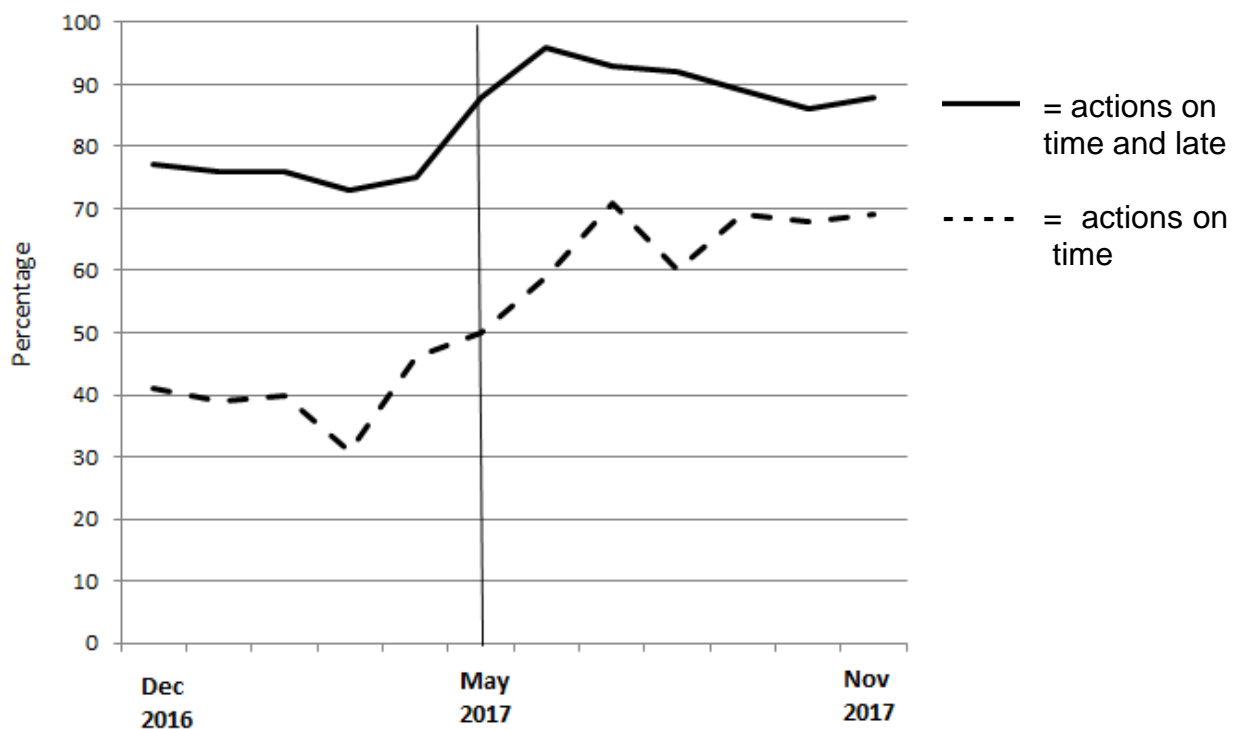
#### **Issues of concern**

- 3.10 Committee members have received copies of all closed internal audit reports issued in the reporting period. Whilst there have been three limited assurance reports, they contain no issues of specific concern that need to be brought to the attention of the Committee.

As at 30 November 2017, it is the Internal Audit & Risk Manager's opinion that the Council's internal control environment and systems of internal control provide adequate assurance over key business processes and financial systems. This opinion remains unchanged from March 2017.

#### **Implementation of agreed actions**

- 3.11 At its May 2017 meeting, the Committee approved a new framework for resolving outstanding internal audit actions. The introduction of the framework has seen an increase in the overall percentage of actions introduced as the graph below shows.



3.12 As at the year ending 30 November 2017 there were 13 audit actions outstanding (five red and eight amber) from a total of 108 actions due. In accordance with the reporting framework agreed by the Committee in May 2017 a separate report on the agenda provides further information on the outstanding actions.

### Internal Audit performance

3.13 Details of Internal Audit's performance against its service plan performance targets are shown below.

### Customer Satisfaction

Target: 85% or more of customers rate quality of audit as very good or good.  
 Achieved: 12 months to November 2017 – 100% (from 8 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.

Three of the targets have been met or exceeded. The target (b) that has not been achieved is new this year. It was not achieved due to delays incurred during the fieldwork stage of a review having a knock-on effect to the issue of the draft report.

	Target	November 2017	March 2017
a) Complete audit fieldwork by the date stated on the audit brief.	75%	On target 75%	58%
b) Issue draft audit reports within the month stated on the audit brief.	80%	Below target 75%	---
c) Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report.	75%	Above target 78%	77%
d) Issue final audit report within 5 working days of receiving full response.	90%	Above target 94%	100%

### **Internal Audit independence**

3.14 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.

### **4. LINK TO THE CORPORATE PLAN**

4.1 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.

### **5. LEGAL IMPLICATIONS**

5.1 There are no direct legal implications arising from this report.

### **6. RESOURCE IMPLICATIONS**

6.1 There are no direct resource implications. The 2017/18 internal audit plan is anticipated to be delivered within budget.

### **7. REASONS FOR THE RECOMMENDED DECISIONS**

7.1 The report informs the Committee of the internal audit work undertaken and allows them to understand how the Internal Audit & Risk Manager has formed his opinion on the internal control environment and systems of internal control.

### **LIST OF APPENDICES INCLUDED**

Appendix A – Assurance level descriptions


## **BACKGROUND PAPERS**

Internal Audit reports

Internal Audit performance management information

## **CONTACT OFFICER**

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## Description of Assurance Levels

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 meeting its objectives.