HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Internal Audit Service: Annual Report 2017/18

Meeting/Date: Corporate Governance Committee – 13 June 2018

Executive Portfolio: Strategic Resources: Councillor J A Gray

Report by: Internal Audit & Risk Manager

Wards affected: All Wards

Executive Summary:

The Public Sector Internal Audit Standards (PSIAS) requires the Committee to receive an annual report on the work of the Internal Audit Service. The report is required to include:
- The opinion
- A summary of the work that supports the opinion; and
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

This report details the work undertaken by Internal Audit during the year ending 31 March 2018 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 2018 provide adequate assurance over key business processes and financial systems.

David Harwood
Internal Audit & Risk Manager   May 2018

The assurance opinion is at the same level as last year. The opinion is based on the outcome of 27 audit reviews and the review of key controls within five financial systems. No evidence was found of significant lapses in the internal control framework and the Internal Audit & Risk Manager considers that managers have responded positively to the issues identified.

The Committee agreed a new framework in May 2017 for the granting of extensions of time against audit actions that Managers had not introduced by the agreed date. This change in process has seen an increase in the percentage of agreed actions introduced on time, from 31% at March 2017 to 79% at 31 March 2018.

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 requirement to maintain a quality assessment and improvement programme This has been in place throughout the year. A self-assessment review was undertaken in May 2018 to evaluate Internal Audit's conformance with the PSIAS. An action plan is being prepared to address areas of non-conformance and will be reported to a future meeting of the Committee.

RECOMMENDATION

It is recommended that the Committee:
1. Consider and comment upon the report; and
2. Take into account the Internal Audit & Risk Manager's opinion when considering the Annual Governance Statement for 2017/18.

1.   **PURPOSE OF THE REPORT**

1.1   This is the annual report of the Internal Audit & Risk Manager (IARM). It covers the period 1 April 2017 to 31 March 2018.

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**

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. These are:
   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.   **ANALYSIS**

   Annual audit report

3.1   The overall opinion of adequate assurance is unchanged from last year. The internal control environment is generally effective.

3.2   There have been two substantial assurance, 16 adequate assurance and 10 limited assurance reports issued in 2017/18. As a consequence of subsequent actions or wider risk mitigation considerations there are no areas of concern within those reviews that require to be brought to the attention of the Committee.

   Quality Assessment & Improvement Programme (QAIP)

3.3   The IARM has maintained a QAIP throughout the year in accordance with the PSIAS. In May 2018 an auditor completed a self-assessment to evaluate Internal Audit's conformance with the PSIAS.

3.4   The self-assessment review did not identify any areas of significant non-conformance and there are no issues that need to be brought to the attention of Committee or require inclusion in the Annual Governance Statement.

3.5   Improvements can always be made. The main issues identified are:
   • Auditor training on PSIAS changes introduced from April 2017
   • On-going assessment and identification of auditor training and development needs
   • Full review of the audit manual to reflect a number of initiatives introduced over the last two years (output from LEAN review of Jan 2017, changes to the QAIP, revised follow-up process).

4.   KEY IMPACTS

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 Committee during the preparation of the Annual Governance Statement.

6.   LINK TO THE CORPORATE PLAN

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 direct 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 2017/18.

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

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Internal Audit Service
Annual Report 2017/18

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 2017 to 31 March 2018.

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 independent external sources.

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 2018 provide adequate assurance over key business processes and financial systems.
>
> **David Harwood**
> **Internal Audit & Risk Manager**   May 2018

2.1   Assurance can never be absolute. The audit opinion reflects the IARM view on the current state of the internal control environment and the effectiveness of the systems of internal control across the Council and provides 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 the Committee will be informed.

2.2   In preparing the internal audit plan for 2017/18, 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 2017/18. However during the year it was noted that the Government Internal Audit Agency undertook a review of the processes followed in Operations for requesting, handling and storing vehicle owner information from the DVLA regarding. Full details of external reviews

that have been relied upon when forming the audit opinion are included in 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 2017/18 AUDIT PLAN

3.1   Committee approved the 2017/18 internal audit plan (consisting of 30 reviews) at its March 2017 meeting.   24 of the originally planned audits have been completed.

3.2   The full audit plan was not delivered due to there being a net loss of 54 audit days across the year. The table below summaries both the additional unplanned time and time savings made to offset the time lost.

3.3   The main areas of unplanned time are listed below:

	Days
Increase in sickness	22
Insurance administration	19
Additional management/admin time	17
Assisting 3C ICT with GDPR preparations	16
Additional staff training time	13
Corporate Governance Committee support & AGS	8
4Action – audit action performance reporting	8
	103
Time recovered via reduction in:	
File reviews, quote opening, follow-up work	21
General advice	14
Data interrogation *(postponed until 2018/19)*	10
LEAN implementation	4
	49
Net days lost:	54

3.4   The audit plan is re-evaluated on a quarterly basis and across the year these reviews led to six of the originally planned audits being deleted from the plan with three new areas introduced. A full list of the audits undertaken can be found at Annex A.

Internal Audit Reports Issued

3.5   Audit reports issued are listed in the table overleaf - grouped by assurance opinion (see Annex C for further explanation) and showing action type and number of actions.

Audit area	Action type & No.	
	Red	Amber
Substantial		
Assets of community value		2
Housing benefits		1
Adequate		
Apprenticeship levy & scheme		8
Social media use *		8
Hornbill – 3CITSS service desk application		6
Health & safety management *		6
Payroll		5
IT project management		5
Countryside services		4
Community infrastructure levy		4
Client management of shared services		3
Appointment of consultants and PAYE status *		3
Grounds maintenance & street cleaning *		3
Environmental health *		2
Contract review: Re:Fit *		2
: Civic Suite audio system *		1
IT network security: anti-virus & malware		1
IT governance	---	---
Limited		
One Leisure – Bars & catering	3	3
Maintenance of operational property	2	2
Refuse & kerbside waste collection *	1	6
Commercial estate management *		15
One Leisure – membership and income		10
Value for Money - Procurement *		8
Employee probationary period management		5
IT Network Security:		
~ Intrusion detection	1	3
~ Patch & vulnerability management		4
~ Firewall management		2
No opinion given		
Data protection & General Data Protection Regulations (GDPR) compliance		4

* Draft reports (status as at 18/05/2018).

3.6 In addition to the reports listed above, reviews have also been completed on the following areas.
- Section 106 agreements
- Business continuity planning
- National fraud initiative data matching: review of potential frauds or irregularities.

These three 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.

3.7 Auditor colleagues from Peterborough City Council (PCC) at the request of the Cambridgeshire and Peterborough Waste Partnership (RECAP) have led a review of the materials recycling facility contract operated by Amey LG. The review included examining the material flows into and out of the Waterbeach recycling facility and the calculation of income share between Amey and the six Cambridgeshire Council's (incl. Huntingdonshire) who are party to the contract. The audit is still at the draft stage. A significant number of issues were found and detailed recommendations have been made. The IARM will provide an update to the Committee on the findings once PCC have concluded their review and a final audit report agreed.

3.8 The continuous auditing of key controls across key financial systems has continued to be undertaken. Due to delays with introducing the new main financial system, the quarterly reviews planned for the main accounting system, accounts payable and receivable were not undertaken for the 2017/18 Qtr.2 or Qtr.3 periods.

3.9 The Qtr. 4 reviews have been completed and the assurance opinions are set out in the table below.

Audit area	Level of assurance				Action type & No.	
	Substantial	Adequate	Limited	Little	Red	Amber
Council tax & non-domestic rates		✓			---	---
Accounts payable (Creditors)		✓			---	---
Main accounting system		✓			---	---
Accounts receivable (Debtors)		✓			---	---

3.10 Full copies of closed internal audit reports have been circulated to Committee Members on a quarterly basis. (If any new members of the Committee would like a copy of the audit reports listed in the table at 3.5 above, please contact the IARM directly). No evidence was found of significant lapses in the internal control framework and the IARM considers that managers have responded positively to the issues identified.

Other review areas

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

- 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 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.
- Agreeing the contractors final account for the redevelopment of One Leisure St Ives.

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

4. IMPLEMENTATION OF AGREED ACTIONS

4.1 The Corporate Management Team has 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 2018 the figure achieved was 79% (96 actions from a total of 122). This increases to 84% (103 actions from a total of 122) when actions implemented on time and late are combined.

Key.

⎯⎯ % of total actions introduced

-- -- % of actions introduced on time
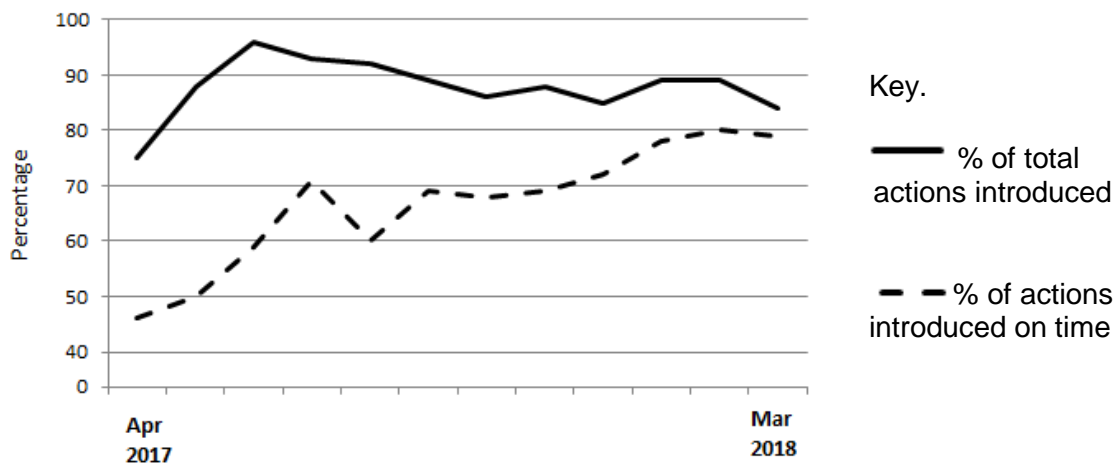
4.2 Not all of the introduced actions are routinely followed up. The IARM decides if a follow-up review is required after considering the actions classification, the action itself, the evidence provided by a manager to support the closure of the action and his own knowledge of the action taken.

4.3 A total of 24 follow-up reviews have been completed on actions marked as having been fully introduced in the audit actions software (4Audit). It is pleasing to report that all have been introduced as agreed. In addition, Managers have uploaded evidence to 4Action on a further 26 occasions to show what steps they have taken to introduce an agreed action. This evidence has been reviewed by the IARM who was content that action had been introduced as agreed.

5 LOW GRADED AUDITS FROM PREVIOUS YEARS

5.1 Three audit reviews had been given 'limited' assurance opinions in previous years. They are listed below together with a summary of the progress made towards implementation of the agreed actions.

5.2 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 is included in the table. 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 assurance level	Agreed Action		Audit area	'Potential' level of assurance	Managers update
	Red	Amber			
2014-15					
Limited	1	1	**E-payments** The red action remains outstanding. It was reported to Committee in January 2018 that introducing the action - requiring the Council to become compliant with the Payment Card Industry (PCI) Data Security Standard (DSS) was to become a specific project, overseen by the Project Management Governance Board. PCI-DSS compliance has not yet been achieved.	Limited	An external expert has reviewed all payment channels across the 3C partnership. A number of operational issues need to be resolved. Two technologies need replacing (1) terminals for chip/pin and (2) secure arrangements for card-not present transactions. The former are being replaced within service operational budgets. (2) is cost prohibitive and will be submitted as a capital bid for 2019 financial year. We will not be fully compliant until the card not present channel is certified or this payment channel is removed.
2015-16					
Limited	2	1	**Licencing** The red action outstanding - the need to recalculate fees and charges for hackney carriage licences – has been completed.	Limited	No update required.

Original assurance level	Agreed Action		Audit area	'Potential' level of assurance	Managers update
	Red	Amber			
Limited		10	**Information Security** Seven actions have been introduced. Two of the three outstanding actions relate to staff training (e.g. protective marking of emails, remote working and use of portable devices). Both of the actions were due to be introduced by December 2017. The remaining action has been superseded by the recent introduction of new corporate mobile devices.	Adequate	The two remaining actions have been incorporated into data protection policies and wider training material as part of the approach with GDPR. Training is currently being roll out to staff, the policy around these items has been updated and approved.
Limited		4	**Data quality & performance indicators** All actions have been introduced.	Adequate	No update required.
Limited		4	**Delivery of corporate & service plans** All actions have been introduced.	Adequate	No update required
2016-17					
Limited	3	4	**Work life balance/Flexi-time management** All actions have been introduced.	Adequate	No update required
Limited	3	4	**Effectiveness of Governance Boards** All actions have been introduced	Adequate	No update required
Limited	2	3	**Business Application Security** All actions have been introduced.	Adequate	No update required
Limited	2	3	**Cyber security** One red and two amber actions have been introduced. The two remaining actions have been superseded by actions agreed following the network security audits.	Limited	An information asset register was prepared as part of our approach to GDPR. Evidence simply needs to be recorded to close out this action.

Original assurance level	Agreed Action		Audit area	'Potential' level of assurance	Managers update
	Red	Amber			
Limited	1		**Safeguarding** The action has an implementation date of December 2018. A Safeguarding Governance Board has been established and is meeting monthly to oversee and progress the 14 actions detailed in the Safeguarding internal audit report. This area will be subject to further follow-up review during 2017/18.	Limited	The safeguarding policy has been reviewed and a combined Children and Adult at Risk policy introduced. Staff training and awareness raising is due to take place over the next couple of months.
Limited	1		**Management of complaints** The agreed action (i.e. the processes for dealing with complaints should be subject to a lean review) has been completed. The management of complaints was reported to Committee as being of significant concern to the IARM in the 2016/17 internal audit annual report. The Committee subsequently included the following action in the 2016/17 AGS - "ensure better outcomes are delivered to customers by improving that way in which complaints are recorded, investigated and outcomes reported back to the complainant". This action remains outstanding and as a consequence the level of assurance has not been increased.	Limited	The review work to assess the level and management of complaints in each service and to assess how to apply the recommendation to each service is still ongoing due to resource issues in undertaking this work and in compliance from Services. It is now targeted to be complete by the end of June 2018.

Original assurance level	Agreed Action	Audit area	'Potential' level of assurance	Managers update
	Red	Amber		
Limited	10	**Data Protection & Information Management** Seven actions have been introduced. Two actions are outstanding and one has been superseded. The two outstanding actions (relating to issues with data retention in one system and improved privacy notices) are being addressed as part of the procedures being introduced across the Council to meet enhanced data protection requirements introduced by the GDPR. The superseded action relates to the introduction of data protection and information security training as part of the mandatory training programme. This was to have been completed by all staff in 2016/17 to ensure that all training records are accurate and up to date ahead of the Human Resources service being brought back in house. It has not been introduced.	Adequate	A GDPR software upgrade has been received, but this needs to be tested as there are concerns that it does not deliver the outcomes required to manage data deletion to a satisfactory level. The Information Governance Manager has arranged a meeting to assess this and the implications. This will lead to a decision on if/how we use the system and any likely resources to be committed to support this and a decision on our retention practices.

6.   INTERNAL AUDIT PERFORMANCE

6.1   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 2018 is detailed below.

6.2   **Customer satisfaction**

Target: 85% or more of customers rating service quality as good or better via customer survey forms.
Outcome: 12 months to March 2018 – 100% (from 11 responses).
                              2017 – 100% (from 13 responses).

6.3   **Service delivery targets**

Target: The four service delivery targets are achieved.
Outcome: All four of the targets have been achieved.

	Target	March 2018		March 2017
a) Complete audit fieldwork by the date stated on the audit brief.	75%	Above target	77%	58%
b) Issue draft audit reports within the month stated on the audit brief.	80%	Above target	82%	---
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	81%	77%
d) Issue final audit report within 5 working days of receiving full response.	90%	Above target	95%	100%

7.   QUALITY ASSESSMENT & IMPROVEMENT PROGRAMME (QAIP)

7.1   The IARM has maintained a QAIP throughout the year in accordance with the PSIAS. In May 2018 an auditor undertook a self-assessment to evaluate Internal Audit's conformance with the PSIAS in preparation for the independent external review that is required to be completed by March 2019.

7.2   There are two distinct but connected parts to quality programmes. First, quality assurance means establishing and implementing best practice to maintain an effective level of performance and to prevent problems from arising (i.e. the day to day supervision, review and measurement of internal audit activity that is inbuilt into policies and routine procedures). Second, continuous improvement is needed to build on what is done and how it is done.

7.3   An action plan is currently being prepared from the results of the self-assessment. This will be shared with the Committee once it has been approved by the Head of Resources. The IARM does not consider that there are any issues identified in the self-assessment that would result in non-conformance with PSIAS.

Annex
   A.   Status of audits as per the audit plan agreed
   B.   External assurance received
   C.   Definitions used in the report
   D.   Summary of key findings identified by Internal Audit

David Harwood : Internal Audit & Risk Manager
Huntingdonshire District Council
May 2018

Status of audits as per the agreed 2017/18 audit plan.

Audits undertaken

1. Asset of community value
2. One Leisure – bars & catering
3. One Leisure – membership & income
4. Housing benefits
5. Environmental Health
6. S106 agreements
7. Community infrastructure levy
8. Countryside services
9. Value for money from procurement
10. Appointment of consultants and PAYE status
11. Payroll
12. Maintenance of operational property
13. Health & safety management
14. Social media use
15. Refuse & kerbside waste collection
16. Grounds maintenance & street cleaning
17. Employee probationary period management
18. Apprenticeship levy & scheme
19. Client management of shared services
20. Commercial estate management
21. IT project management
22. Hornbill – 3CITSS service desk application
23. Data protection & GDPR compliance
24. Network security (patch & vulnerability management, firewall management, anti-virus & malware, intrusion detection).

Audits not undertaken

25. ~~Ethical standards~~
26. ~~Management of cash flow~~
27. ~~Commercialisation – governance framework~~
28. ~~IT audit – FMS application~~
29. ~~Compliance with the code of procurement~~
30. ~~Financial management system~~

Additional audits undertaken

25. IT governance
26. Contract reviews: Re:Fit
27.   : Civic Suite audit system

External Assurance Received

Date	Report from	Area covered	Assessment
June 2017	Government Internal Audit Agency	Driver & Vehicle Licensing Agency – audit to confirm validity of vehicle keeper data requests.	Green - a high level of compliance.
November 2017	External Auditor (Ernst Young LLP)	Annual Audit Letter 2016/17	Unqualified accounts. Unqualified value for money opinion.
March 2018	------- ditto ------	Grant Certification Report 2016/17	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.