central midlands audit partnership

Derby City Council –
Internal Audit Progress Report
Audit & Accounts Committee: 5th February 2014

Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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Providing Excellent Audit Services in the Public Sector

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Summary

Role of Internal Audit

The Internal Audit Service for Derby City Council is provided by the Central Midlands Audit Partnership (CMAP). The Partnership operates in accordance with standards of best practice applicable to Internal Audit (in particular, the Public Sector Internal Audit Standards – PSIAS). CMAP also adheres to the Internal Audit Charter.

The role of internal audit is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

Recommendation Ranking

To help management schedule their efforts to implement our recommendations or their alternative solutions, we have risk assessed each control weakness identified in our audits. For each recommendation a judgment was made on the likelihood of the risk occurring and the potential impact if the risk was to occur. From that risk assessment each recommendation has been given one of the following ratings:

- Critical risk.
- Significant risk.
- Moderate risk
- Low risk.

These ratings provide managers with an indication of the importance of recommendations as perceived by Audit; they do not form part of the risk management process; nor do they reflect the timeframe within which these recommendations can be addressed. These matters are still for management to determine.

Control Assurance Definitions

Summaries of all audit reports are to be reported to Audit & Accounts Committee together with the management responses as part of Internal Audit's reports to Committee on progress made against the Audit Plan. All audit reviews will contain an overall opinion based on the adequacy of the level of internal control in existence at the time of the audit. This will be graded as either:

- **None** - We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Limited** - We are able to offer limited assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Reasonable** - We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Comprehensive** - We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

This report rating will be determined by the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks. Any audits that receive a None or Limited assurance assessment will be highlighted to the Audit & Accounts Committee in Audit's progress reports.

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Audit Coverage

Progress on Audit Assignments

The following tables provide Audit & Accounts Committee with information on how audit assignments were progressing as at 31st December 2013.

In Progress at year end - 2012-13 Audit Plan Assignments B/Fwd	Type of Audit	Current Status	% Complete
Main Accounting System 2012-13	Key Financial System	Final Report	100%
Contracts Register	Systems/Risk Audit	Final Report	100%
Information Governance	IT Audit	Final Report	100%
Cashiers 2012-13	Key Financial System	Reviewed	90%
Oracle EBS R12 Security Assessment	IT Audit	In Progress	75%
IT Application - Academy	IT Audit	Draft Report	95%
VOIP Security Assessment	IT Audit	Final Report	100%

Another 15 assignments brought forward from the 2012-13 Audit Plan have already been reported to this Committee as finalised.

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Progress on Audit Assignments (Cont.)

2013-14 Audit Plan Assignments	Type of Audit	Current Status	% Complete
PI Self-Assessment 2013-14	Governance Review	In Progress	20%
Neighbourhoods Complaints Review	Investigation	Complete	100%
Children in Care	Systems/Risk Audit	Draft Report	95%
Commissioning	Systems/Risk Audit	Final Report	100%
CYP Establishment	Investigation	Final Report	100%
Payroll 2013-14	Key Financial System	In Progress	10%
HR Payroll Project	Key Financial System	Allocated	0%
Fixed Assets 2013-14	Key Financial System	In Progress	10%
Treasury Management 2013-14	Key Financial System	In Progress	25%
Main Accounting System 2013-14	Key Financial System	In Progress	55%
Local Transport Settlement	Key Financial System	Complete	100%
Risk Management 2013-14	Governance Review	Awaiting Review	80%
Data Matching 2013-14	Governance Review	In Progress	10%
National Fraud Initiative 2013-14	Governance Review	In Progress	80%
Internal Groups 2013-14	Advice/Emerging Issues	In Progress	55%
Creditors 2013-14	Key Financial System	In Progress	25%
Debtors 2013-14	Key Financial System	In Progress	40%
Council Tax 2013-14	Key Financial System	Draft Report	95%
Non-Domestic Rates 2013-14	Key Financial System	In Progress	75%
Housing & Council Tax Benefits 2013-14	Key Financial System	In Progress	70%
GIS Application Security Assessment	IT Audit	In Progress	65%
Virtualisation Management	IT Audit	In Progress	75%
Oracle Business Intelligence	IT Audit	In Progress	70%
Wireless Network Infrastructure	IT Audit	Allocated	5%

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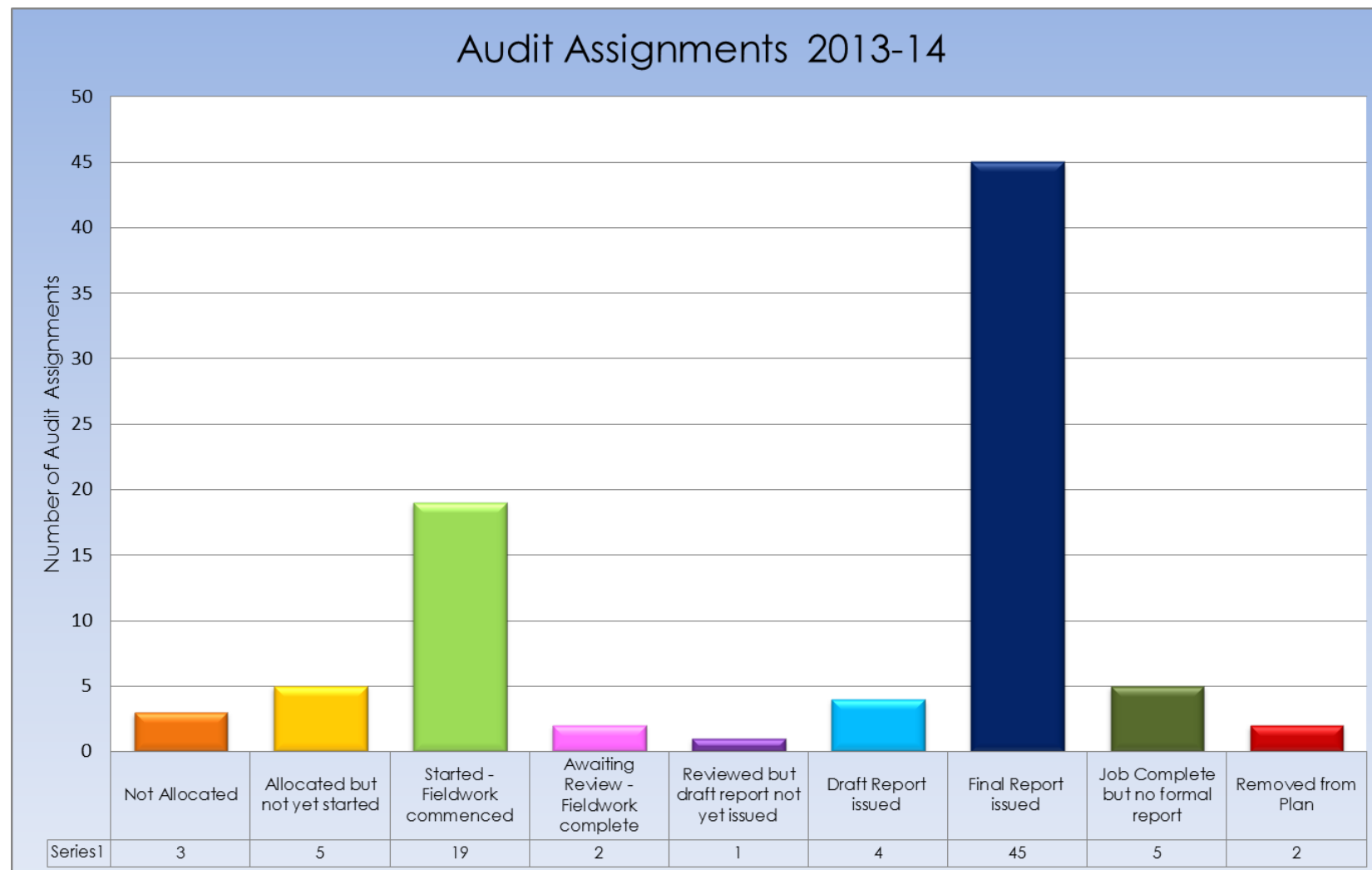|			
Network Access Management	IT Audit	Allocated	0%
Contracts Under Seal	Investigation	In Progress	65%
Multi-Sports Arena Contract	Procurement/Contract Audit	In Progress	70%
Markets	Systems/Risk Audit	Final Report	100%
Nursing Care	Systems/Risk Audit	Draft Report	95%
Self-Assessing Schools 2013-14	Schools	In Progress	75%
24 Schools SFVS	Schools	Various	Various

Another 5 assignments from the 2013-14 Audit Plan have already been reported to this Committee as finalised and 21 of the Schools Financial Value Standards reviews have now been completed. Another 3 planned assignments have yet to commence.

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Audit Coverage

Progress on Audit Assignments Chart

The following graph provides Audit & Accounts Committee with information on what stage audit assignments were at as at 31st December 2013.

Audit Assignments 2013-14

	Not Allocated	Allocated but not yet started	Started - Fieldwork commenced	Awaiting Review - Fieldwork complete	Reviewed but draft report not yet issued	Draft Report issued	Final Report issued	Job Complete but no formal report	Removed from Plan
Series1	3	5	19	2	1	4	45	5	2

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Audit Coverage

Completed Audit Assignments

Between 1st October 2013 and 31st December 2013, , Internal Audit has completed the following 9 audit assignments for Derby City Council as well as completing 15 School's Financial Value Standard reviews:

Audit Assignment	Overall Assurance Rating
Neighbourhood Complaints Review	Not Applicable
Commissioning	Comprehensive
CYP Establishment	Not Applicable
Local Transport Settlement	Not Applicable
Main Accounting System 2012-13	Comprehensive
Contracts Register	Comprehensive
Information Governance	Reasonable
VOIP Security Assessment	Reasonable
Markets	Reasonable

All audits leading to a rating of "Limited" or "None" will be brought to the Committee's specific attention, but none were produced in the period,

The following summarises the internal audit work completed in the period and seeks to highlight issues which Committee may wish to review in more detail at the next meeting.

Chief Executives

Neighbourhood Complaints Review

Internal Audit participated in a project to review complaints and customer feedback within the Neighbourhood's directorate, in an effort to improve response times against the Council's standard 10 working days and to reduce the overall number of complaints received.

The results of the project were reported to Neighbourhoods DMT, the Customer Experience Board and Chief Officer Group (COG). These identified blockages in the complaints process, the accuracy of the data being recorded, along with subsequent issues, and made suggestions for process improvements. The Strategic Director of Neighbourhoods undertook to implement process improvements following the review.

Children & Young People

Commissioning

This audit focused on the Council's approach to integrated commissioning services to ensure robust governance arrangements were in place for the delivery of the Children and Young People's commissioning intentions. From the 9 key controls evaluated in this audit review, 3 were considered to provide adequate control and 6 contained weaknesses. This report contained 6 recommendations, 5 were considered a low risk and 1 a moderate risk. All 6 of the control issues within this report were accepted, 1 had already been addressed and positive action was agreed to address 3 of the issues by 31st December 2013, 1 by 31st January 2013, and the remaining 1 by 30th April 2014.

CYP Establishment

Internal Audit assisted management with the investigation of potential financial irregularities at a Council run establishment to support a disciplinary process which is ongoing.

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Resources

Local Transport Settlement

Internal Audit confirmed the receipt and of use of £3,815,416 of the £3,991,000 funding which had been allocated to the Council and confirmed that the remaining £175,584 would be utilised in subsequent years. Internal Audit examined documents to support the various projects, scrutinised a sample of payments and was able to offer an opinion that the funding conditions had been complied with.

Main Accounting System 2012-13

This audit focused on ensuring that key reconciliations were carried out on a regular basis, reconciling items were cleared and that the reconciliation was subject to independent review. The audit also sought to ensure that the interface between Academy and Oracle was working correctly and that virements were correctly approved in accordance with Financial Procedure Rules. Finally, the audit also reviewed the appropriation of reserves to ensure their use was approved in accordance with the financial limits determined in the Financial Procedure Rules. From the 26 key controls evaluated in this audit review, 15 were considered to provide adequate control and 11 contained weaknesses. All 10 of the control issues raised within this report were accepted and positive action was to be taken to address 7 of the issues raised by 31st March 2014. A further 2 issues had already been addressed by recent procedural changes where Audit's findings were from a period prior to the implementation of the new process. No action was being taken to address the 1 remaining control issue which was considered a low risk.

The Corporate Accountancy team accepted the issue raised, but opted to accept the risks identified and take no further action. This decision was taken on the basis that the performance of key reconciliations had been risk accessed. Key reconciliations had been assessed as low to high risk and the regularity of undertaking these reconciliations and investigating reconciling items had been determined in accordance with the associated risk.

Contracts Register

This audit focused on the contract register maintained by the Procurement Section. The main focus was to ensure that all contracts in place had been included on this register. From the 27 key controls evaluated in this audit review, 20 were considered to provide adequate control and 7 contained weaknesses. This report contained 8 recommendations all of which were considered a low risk. All 8 issues were accepted and positive action had already been taken in respect of 6 recommendations. Positive action was agreed to address the 2 remaining issues by 28th February 2014.

Information Governance

This audit focused on reviewing the Council's Information Governance arrangements to provide assurance that they are robust and adhere to statutory guidelines. From the 23 key controls evaluated in this audit review, 18 were considered to provide adequate control and 5 contained weaknesses. This report contained 6 recommendations, 5 of which were considered a low risk and 1 a moderate risk. All 6 of the issues raised were accepted and 2 of these had already been implemented. Positive actions were agreed to address another 2 control weaknesses by 31st January 2014, 1 other by 28th February 2014, and the final control weaknesses by 31st March 2014.

VOIP Security Assessment

This audit focused on the security of the Voice over Internet Protocol (VoIP) infrastructure, associated hardware and its resilience to attack and failure. From the 16 key controls evaluated in this audit review, 9 were considered to provide adequate control and 7 contained weaknesses. This report contained 3 recommendations, all of which were considered a moderate risk. All 3 control issues raised within this report were accepted and positive action was agreed to be taken to address all 3 recommendations by 31st July 2014.

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Neighbourhoods

Markets

This audit focused on ensuring that markets' income due was correctly identified, receipted and banked promptly, that traders were charged for the stall occupied and that stall rental charges were periodically reviewed. The audit also focused on ensuring arrears were monitored frequently and attempts were made to recover any outstanding monies. Finally, a review of the security arrangements was made to ensure markets premises and income held were adequately safeguarded. From the 40 key controls evaluated in this audit review, 30 were considered to provide adequate control and 10 contained weaknesses. This report contained 12 recommendations, 7 of which were considered a low risk and 5 a moderate risk. All 12 issues raised within this report were accepted and positive action had already been taken to address 7 of the issues raised. Action was agreed to be taken to address 3 further issues by the beginning of January 2014, with the remaining 2 issues being addressed by the end of March 2014 and beginning of April 2014.

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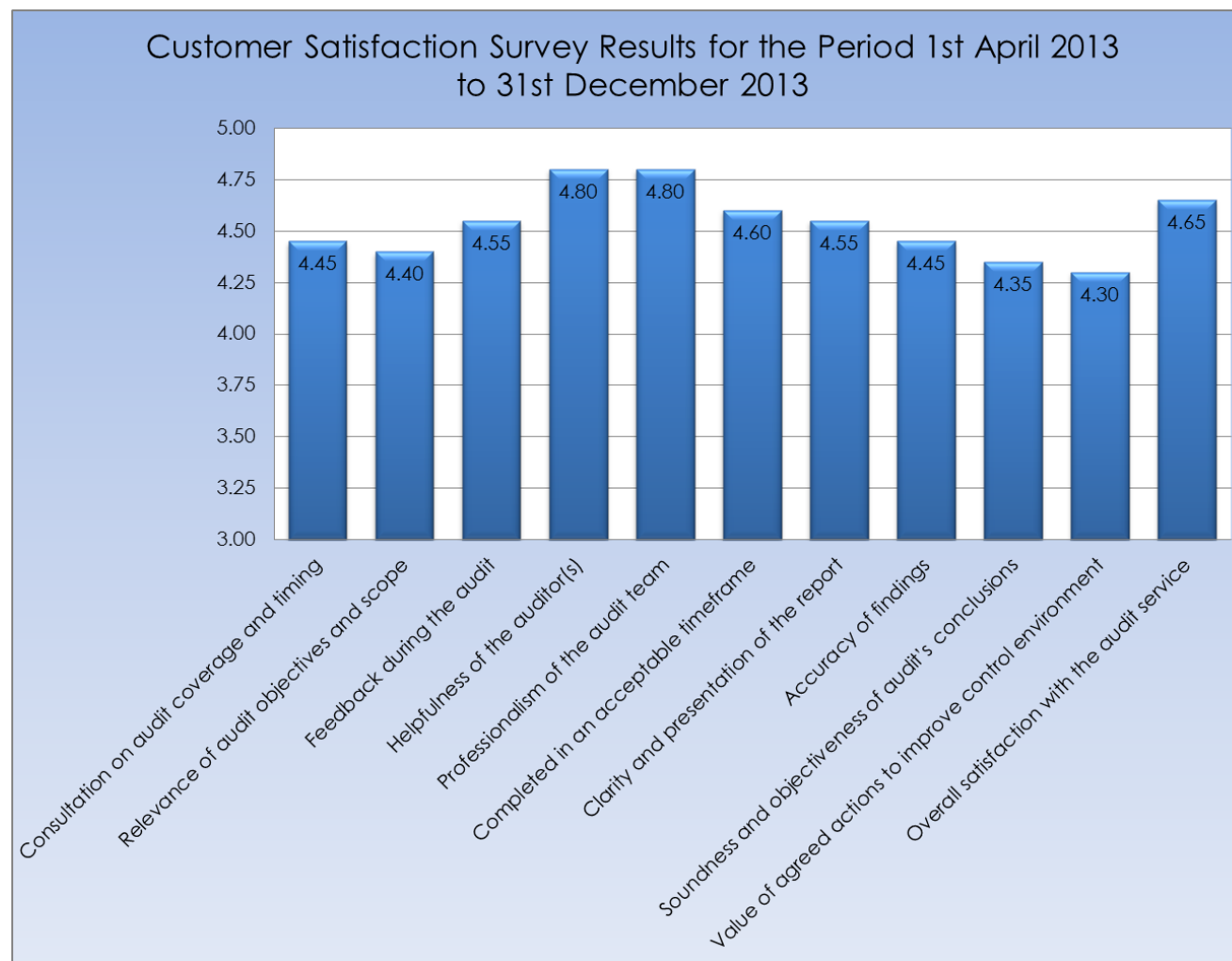
Audit Performance

Customer Satisfaction

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. The chart across summarises the average score for each question from the 20 responses received between 1st April 2013 and 31st December 2013. The overall average score from the surveys was 49.9 out of 55. The lowest score received from a survey was 40, whilst the highest was 55 which was achieved on 4 occasions.

The overall responses are graded as either:

- Excellent (scores 47 to 55)
- Good (scores 38 to 46)
- Fair (scores 29 to 37)
- Poor (scores 20 to 28)
- Very poor (scores 11 to 19)

Overall 15 of 20 responses categorised the audit service they received as excellent, another 5 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.

Customer Satisfaction Survey Results for the Period 1st April 2013 to 31st December 2013

Question	Score
Consultation on audit coverage and timing	4.45
Relevance of audit objectives and scope	4.40
Feedback during the audit	4.55
Helpfulness of the auditor(s)	4.80
Professionalism of the audit team	4.80
Completed in an acceptable timeframe	4.60
Clarity and presentation of the report	4.55
Accuracy of findings	4.45
Soundness and objectiveness of audit's conclusions	4.35
Value of agreed actions to improve control environment	4.30
Overall satisfaction with the audit service	4.65

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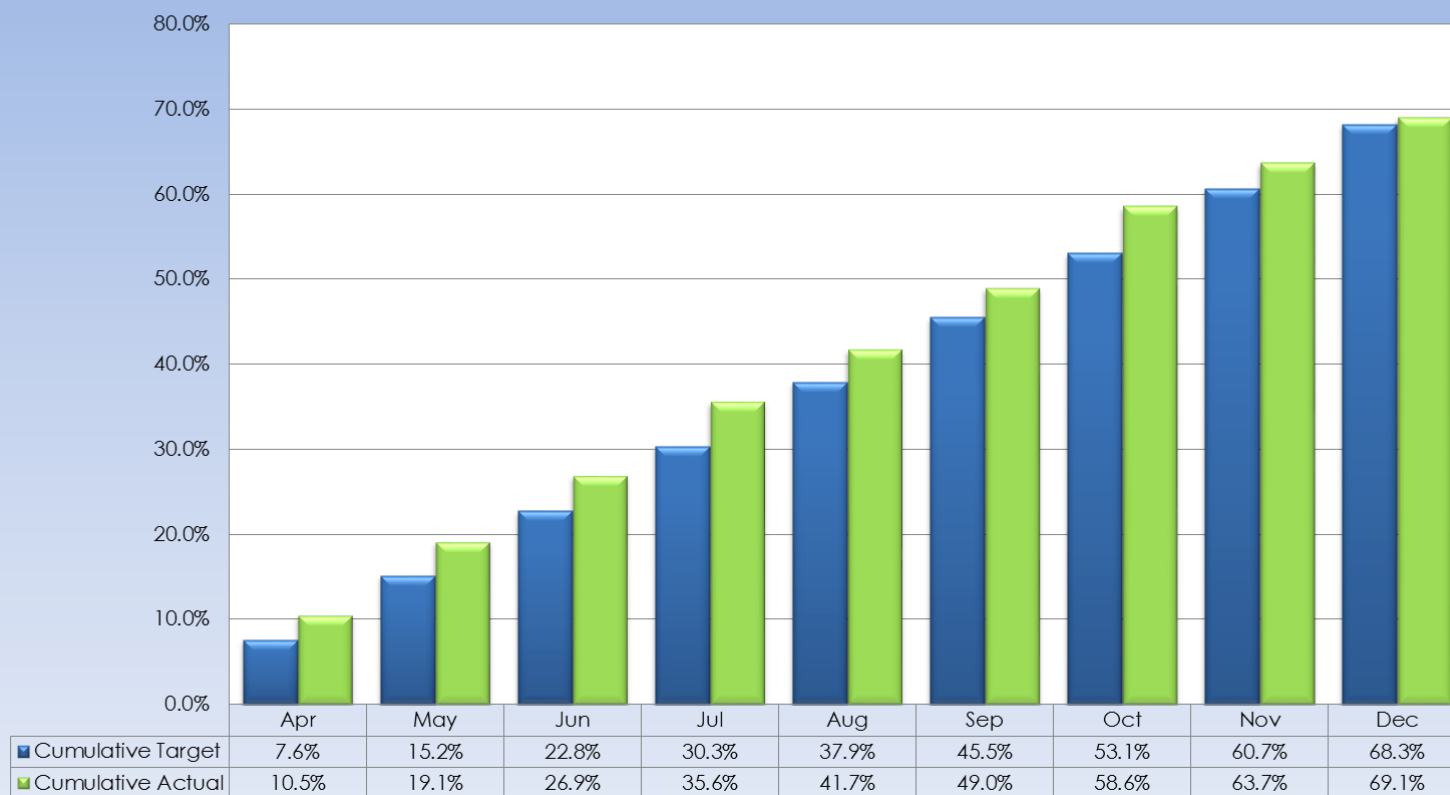
Audit Performance

Service Delivery (% of Audit Plan Completed)

At the end of each month, Audit staff provide the Audit Manager with an estimated percentage complete figure for each audit assignment they have been allocated. These figures are used to calculate how much of each Partner organisation's Audit Plans have been completed to date and how much of the Partnership's overall Audit Plan has been completed.

Shown across is the estimated percentage complete for Derby City Council's 2013-14 Audit Plan (including incomplete jobs brought forward) after 9 months of the Audit Plan year.

The monthly target percentages are derived from equal monthly divisions of an annual target of 91% and do not take into account any variances in the productive days available each month.

Service Delivery (% of Derby City Council Audit Plan Completed) as at 31st December 2013

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cumulative Target	7.6%	15.2%	22.8%	30.3%	37.9%	45.5%	53.1%	60.7%	68.3%
Cumulative Actual	10.5%	19.1%	26.9%	35.6%	41.7%	49.0%	58.6%	63.7%	69.1%

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Recommendation Tracking

Follow-up Process

Internal Audit has sent emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We will request an update on each recommendation's implementation status, which will be fed back into the database, along with any revised implementation dates.

Prior to the Audit & Accounts Committee meeting we have provided Chief Officers with details of each of the recommendations made to their departments which have yet to be implemented. This is intended to give them an opportunity to provide Audit with an update position.

Each recommendation made by Internal Audit will be assigned one of the following "Action Status" categories as a result of our attempts to follow-up management's progress in the implementation of agreed actions. The following explanations are provided in respect of each "Action Status" category:

- **Blank (Due)** = Action is due and Audit has been unable to ascertain any progress information from the responsible officer.

- **Blank (Not Due)** = Action is not due yet, so Audit has not followed up.

- **Implemented** = Audit has received assurances that the agreed actions have been implemented.

- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.

- **Being Implemented** = Management is still committed to undertaking the agreed actions, but they have yet to be completed. (This category should result in a revised action date)

- **Risk Accepted** = Management has decided to accept the risk that Audit has identified and take no mitigating action.

Implementation Status Details

Reports to Committee are intended to provide members with an overview of the current implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations made between 1st December 2010 and 31st December 2013.

	Implemented	Being implemented	Risk Accepted	Superseded	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	284	12	3	6	6	7	**318**
Moderate Risk	126	7	2	2	1	6	**144**
Significant Risk	20	0	0	0	0	0	**20**
Critical Risk	0	0	0	0	0	0	**0**
Totals	**430**	**19**	**5**	**8**	**7**	**13**	**482**

The table below shows those recommendations not yet implemented by Dept.

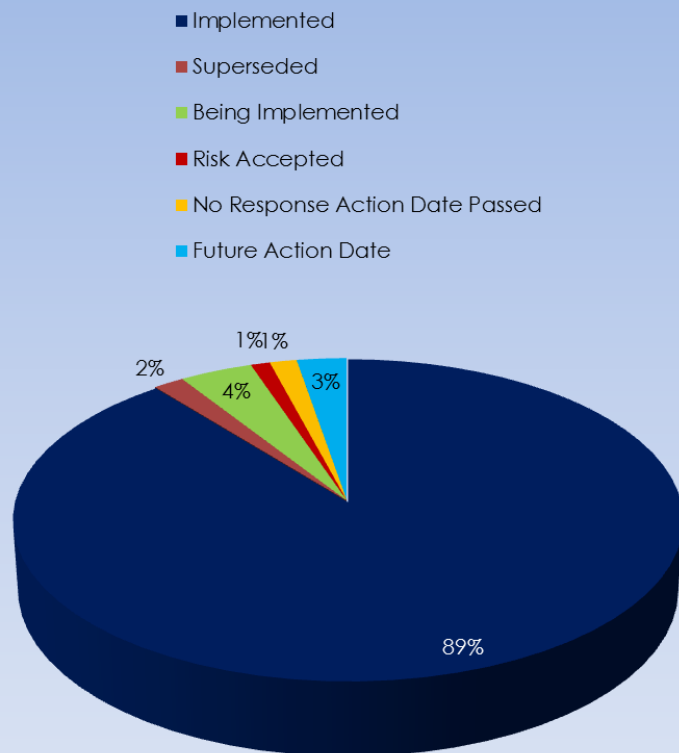| Recommendations Not Yet Implemented	Chief Executives	Children & Young People	Resources	Neighbourhoods	Adults Health & Housing	Totals
Risk Accepted	0	0	5	0	0	**5**
Being implemented	0	4	7	8	0	**19**
Due, but unable to obtain progress information	0	2	0	5	0	**7**
Totals	**0**	**6**	**12**	**13**	**0**	**31**

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. We will provide full details of any recommendations where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). One more 'Risk Accepted' recommendation has occurred during the period in respect of the Accounting Systems 2012-13 audit assignment. Accordingly, full details are included at the end of this report.

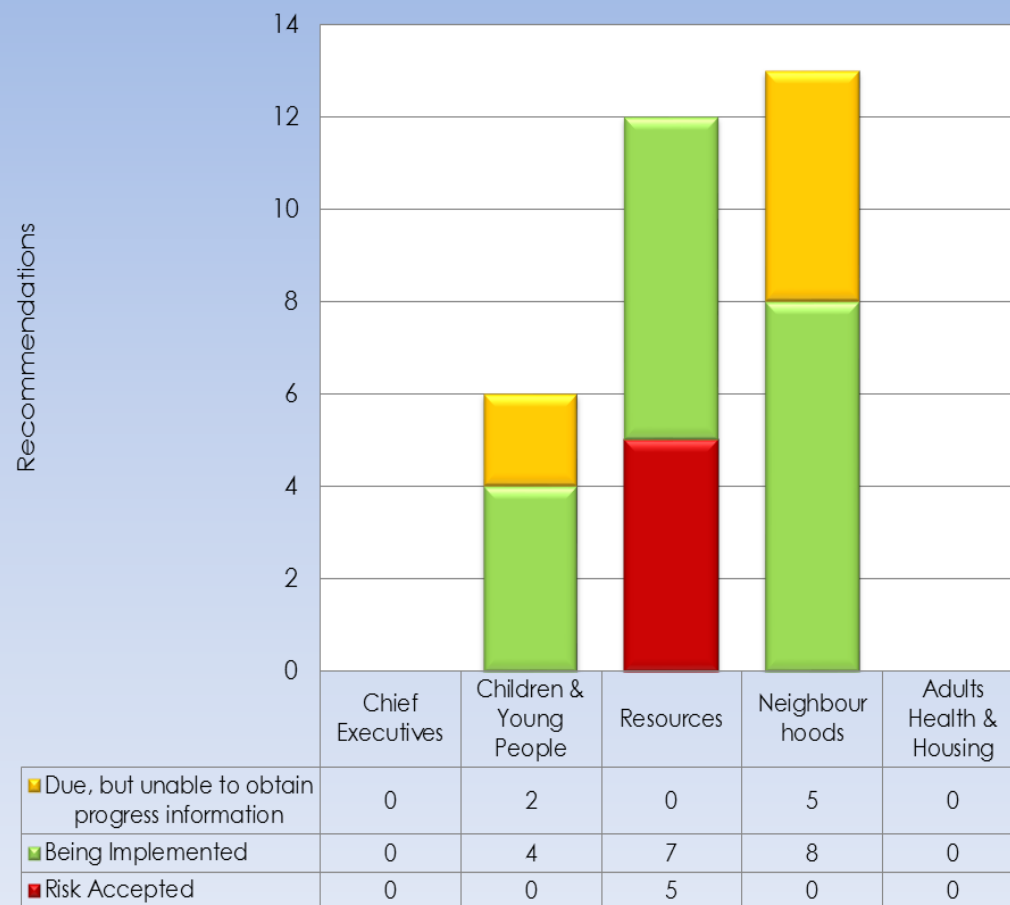# Derby City Council – Internal Audit Progress Report

Recommendation Tracking

Implementation Status Charts

Action Status of Recommendations made between 1st Dec 2010 and 30th Nov 2013

- Implemented
- Superseded
- Being Implemented
- Risk Accepted
- No Response Action Date Passed
- Future Action Date

Recommendations Not Yet Implemented by Department

	Chief Executives	Children & Young People	Resources	Neighbourhoods	Adults Health & Housing
Due, but unable to obtain progress information	0	2	0	5	0
Being Implemented	0	4	7	8	0
Risk Accepted	0	0	5	0	0

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Recommendation Tracking

Recommendations Not Yet Implemented

Children & Young People

Audit Assignment	No. of Recs Still Being Implemented	No. of Recs Where Unable to Obtain a Response	Final Report Date
Safeguarding Children	4		06-Jul-12
Commissioning		2	21-Nov-13
Total No. of Outstanding Recommendations	**4**	**2**	

Resources

Audit Assignment	No. of Recs Still Being Implemented	No. of Recs Where Unable to Obtain a Response	Final Report Date
Network Security - Password Audit	2		24-May-11
NNDR 2011-12	1		31-Jul-12
NNDR 2012-13	1		3-Jul-13
Payroll 2012-13	2		12-Apr-13
Taxation	1		23-Jan-13
Total No. of Outstanding Recommendations	**7**	**0**	

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Neighbourhoods

Audit Assignment	No. of Recs Still Being Implemented	No. of Recs Where Unable to Obtain a Response	Final Report Date
Markets	1	2	19-Nov-13
Health & Safety		1	02-Apr-12
Carbon Reduction Commitment	1	2	05-Sep-12
Civica APP IT Security	2		05-Nov-12
Waste Management	2		23-Jan-13
PI Missed Bins	1		23-May-13
Trading Standards	1		28-Aug-13
Total No. of Outstanding Recommendations	**8**	**5**	

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Risk Accepted Recommendations

Resources

Main Accounting System 2012-13

Audit Finding

We expected that reconciling items would be investigated and cleared as part of the reconciliation process.

We found that not all reconciling items were investigated and cleared as part of the reconciliation process. For example, adjustments were being made in respect of the reconciliation between the Accounts Payable system and the General Ledger. Each month from April 2012, adjustments for £1,263.20 and £33,455.20 were required to be made to the Accounts Payable trial balance in order for the systems to reconcile. Likewise, a system upgrade had resulted in a further adjustment of £7,860.11 which reflected a further anomaly between the two systems.

In three other reconciliations, differences had been identified, but the differences were unexplained, at the time of audit. One of the three reconciliations mentioned was incomplete and had not been reconciled during the 2012/13 financial year. This reconciliation related to cash receipts at Springwood Centre. However, at the time of audit, this reconciliation was under review with further information having been requested from source to assist the reconciliation process.

Testing specific to the reconciliation between Academy and Oracle

From our review of the completed reconciliations for September and December 2012 we were able to verify that the reconciliations contained information relevant to the two systems. This included reconciliations on the rent debit, refunds, voids, housing benefit, allowances, cash income, disturbance and write offs.

However, our review identified that the reconciliations had revealed differences in some areas. Whilst most of these were not considered to be significant differences (a few hundred pounds) there was a notable difference of £52,635.41 from September 2012 to December 2012 between the Academy and Oracle opening balance. Discussion with the

Senior Accountancy Officer revealed that reconciling items were not cleared on a monthly basis due to the generally low value differences identified. These were investigated in more detail at year-end. Our review also identified an adjustment to the Academy opening balance of £3,779,414.24. This was explained as being a sum that had built up over a number of years and represented the amount Derby Homes had advised was to be written-off. It was the understanding of Accountancy that write-offs couldn't be performed in Academy.

If reconciling items are not resolved in a timely manner, this could mean errors are concealed within Council systems. If errors and anomalies are allowed to remain concealed within Council systems, there is a risk that financial irregularities could exist in the Council's financial statements.

Recommendation 1

Risk Rating: Low Risk

Summary of Weakness: Reconciling items identified as part of the reconciliation process were not being cleared on a monthly basis.

Suggested Actions: We recommend that reconciling items, identified as a result of the reconciliation process, should be investigated and cleared on a monthly basis.

Summary Response

Responsible Officer: Gemma Hadfield

Issue Accepted

Agreed Actions: As per the Reconciliation Procedure Notes only high risk reconciliations are reviewed monthly. A large proportion of reconciliations are quarterly and are low risk. The reviewing accountant has two periods to resolve the discrepancies before escalating this to a Group Accountant.

Implementation Date: N/A