Follow-up Audits

RECOMMENDATION

1.1 To approve the approach to the reporting of follow up audits to the Committee.

SUPPORTING INFORMATION

2.1 At each December meeting, members of the Committee receive a report from Internal Audit on the follow up of audit recommendations, which shows the implementation of accepted recommendations made in the previous Audit Plan year.

2.2 This information is gathered by distributing questionnaires, approximately 8 weeks prior to the December Committee, to Line Managers to find out the latest implementation status of the agreed recommendations. Following a review of the responses audit makes a recommendation to Committee as to whether a formal follow up audit should be undertaken.

2.3 Given the limitations of audit resources, relatively few audits are the subject of a formal follow up audit, although many finance-based audits are revisited annually according to a programme agreed with external audit.

2.4 At the time of reporting to Committee, many of the agreed recommendations are still in the process of being implemented. Consequently, if the decision is taken not to formally follow up an audit, we never actually establish whether those recommendations still not implemented, ever do get implemented.

2.5 To address this, the Head of Audit and Risk Management considers that the follow up audit process needed to change. The new process relies on our recent development of a Recommendation Tracking database. This new database now allows us to assign to each individual recommendation:
- Risk Rating (i.e. fundamental, significant or merits attention).
- The associated Control Weakness.
- Department, Division and Officer Responsible for Action.
- Action Date.

2.6   Holding this information, in this format, allows audit to monitor and report upon the implementation status of recommendations in ways that were not previously possible.

2.7   Internal Audit will also now be able to send emails, automatically generated by the database, to officers responsible for action when their recommendations' action dates have been exceeded. Emails will request an update on each recommendation's implementation status, which can be fed back into the database, along with any revised implementation dates.

2.8   Chief Officers have been consulted on these proposed new procedures and support our proposals for this revised approach.

Reporting of Follow Up Audits to the Committee

2.9   Follow up reports to Committee can now be made with each quarterly progress report and can also be structured in many different ways, for example:
- By Department, Division, Officer.
- By risk rating.
- By age.
- By recommendation status (i.e. Implemented, Being Implemented, Superseded or Not Implemented)

2.10   We are seeking an indication from Committee on what type of follow-up reports would be preferred, so that we can develop the necessary reports in the Recommendation Tracking database.

2.11   Following a detailed data cleansing exercise we intend to commence quarterly reporting to Committee from the December committee onwards.

2.12   The current format for reporting the status of recommendations to Committee is shown below:

Job Name	Overall Control Rating	Rec. Rank	Recommendations		As per Management's Response to Follow-up Questionnaire				Follow-up Audit Required
			Made	Accepted	Implemented	Being Implemented	Superseded	Not Implemented	
Assignment 1	Satis-factory	Funda-mental	0	0	0	0	0	0	No
		Signif-icant	5	5	4	1	0	0	
		Merits Attention	12	12	7	4	1	0	
Assignment 2	Marginal	Funda-mental	0	0	0	0	0	0	Yes
		Signif-icant	5	5	1	1	1	2	
		Merits Attention	9	9	1	1	1	6	

Note: "Superseded" category includes where recommendations have not been implemented but the control weakness no longer exists.

2.13   Appendix 2 gives an example of the type of information that can be presented to Committee. It is intended that Chief Officers will receive a draft of these reports in advance of the Committee meeting, to provide them with an opportunity to discuss / progress any incomplete recommendations with the relevant responsible officers.

2.14   Summary reports will be grouped by Audit Plan years and will show, by each recommendation risk rating (i.e. Fundamental, Significant and Merits Attention), the numbers of recommendations made and accepted by each Department, whilst also indicating their latest implementation status (i.e. Implemented, Superseded, Being Implemented and Not Implemented).

2.15   Appendix 3 is an example which provides by Department, the detail of those recommendations either Being Implemented or Not Implemented. This report includes the original recommendation and agreed actions as well an update from the responsible officer on the action status.

2.16   Hopefully, this information will provide Committee with all the necessary information to monitor the overall progress of Departments in relation to the implementation of audit recommendations, whilst providing enough detail on any outstanding actions to satisfy Committee that the actions of officers are appropriate, sufficient and timely.

For more information contact:	Richard Boneham, Head of Audit and Risk Management, 01332 255688 richard.boneham@derby.gov.uk
Background papers:	None
List of appendices:	Appendix 1 – Implications.
	Appendix 2 – Example report on type of information on current status that can be reported.
	Appendix 3 – Example report on recommendations where implementation is not yet completed.

IMPLICATIONS

Financial

1. None directly arising.

Legal

2. None directly arising.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. None directly arising.

Current Status of All Recommendations Made in 2007-8

Department	Made	Accepted	Complete		Incomplete		% Complete	% Incomplete
			Implemented	Superseded	Being Implemented	Not Implemented		
Fundamental								
Regeneration & Community								
Children & Young People								
Resources								
Environmental Services								
Corporate & Adult Services								
Totals								
Significant								
Regeneration & Community	8	8	4		2	2	50.0%	50.0%
Children & Young People	15	15	9	4	1	1	86.7%	13.3%
Resources	6	6	6				100.0%	
Environmental Services								
Corporate & Adult Services	6	6	2	3	1		83.3%	16.7%
Totals	**35**	**35**	**21**	**7**	**4**	**3**	**80.0%**	**20.0%**
Merits Attention								
Regeneration & Community	13	13	11	1	1		92.3%	7.7%
Children & Young People	26	26	21	4		1	96.2%	3.8%
Resources	28	28	27		1		96.4%	3.6%
Environmental Services	5	5	5				100.0%	
Corporate & Adult Services	17	17	8	8	1		94.1%	5.9%
Totals	**89**	**89**	**72**	**13**	**3**	**1**	**95.5%**	**4.5%**

Department	Made	Accepted	Complete		Incomplete		% Complete	% Incomplete
			Implemented	Superseded	Being Implemented	Not Implemented		
All Recommendations								
Regeneration & Community	21	21	15	1	3	2	76.2%	23.8%
Children & Young People	41	41	30	8	1	2	92.7%	7.3%
Resources	34	34	33		1		97.1%	2.9%
Environmental Services	5	5	5				100.0%	
Corporate & Adult Services	23	23	10	11	2		91.3%	8.7%
Totals	**124**	**124**	**93**	**20**	**7**	**4**	**91.1%**	**8.9%**

Audit Recommendations Made in 2007-8 - Not Yet Implemented

Department:	Children & Young People

Job Name	588	Debtors Credit Notes	**Report Issued** 29/06/2007

Rec No 4	**Rating** Significant	**Responsible Officer** Alison Parkin	**Action Date**	**Status** Not Implemented	**Revised Date**

Control Issue	**Recommendation**
Regular independent checks were not performed which confirmed that only approved credit notes had been input to the debtors system.	We recommend that following input of approved credit notes to the debtors system checks are undertaken which demonstrate that the number and value of credit notes input agrees with the number and value of credit notes authorised. It would not be appropriate to determine the best way of achieving this control until the Oracle Financials system has replaced the CODAS system in April 2007.

Action Details	**Update Comments**
Regular checks take place for sold service credit notes and a copy of the reconciliation was forwarded to the Auditor. The credit note file we hold shows that sold service credit notes are checked once they are input to ensure they agree to the original request. This system is to be extended so that all credit notes are checked once they have been input with immediate effect. By having a local record of all the credit notes raised we can keep track of all the requests and ensure that the correct procedures have been followed.	Credit notes raised are hard copy checked by principal account and signed however we are not aware of any reports that we can get from Oracle that can show all credit notes posted. Will follow this up.

Job Name	569	Investigation Hardwick Primary School	**Report Issued** 20/11/2007

Rec No 1	**Rating** Significant	**Responsible Officer** Keith Forrest	**Action Date** 30/03/2008	**Status** Being Implemented	**Revised Date**

Control Issue	**Recommendation**
The school produced a technical specification as opposed to a more appropriate functional specification, against the advice of the Head of Service ICT IMS. We recommend that the ICT IMS section of Children and Young People's Services publish a set of guidelines for use by Schools informing them of how to draw up an adequate specification for purchases of ICT equipment. The guidance can be as thorough as is required, but it must be made clear to schools that the Council is able to provide valuable advice on producing ICT specifications.	We recommend that the ICT IMS section of Children and Young People's Services publish a set of guidelines for use by Schools informing them of how to draw up an adequate specification for purchases of ICT equipment. The guidance can be as thorough as is required, but it must be made clear to schools that the Council is able to provide valuable advice on producing ICT specifications.

Action Details	**Update Comments**
It is proposed to establish an area of the Derby web-site to offer basic procurement advice and provide links to more detailed material which is already available on the DCSF web-site. So, a head teacher seeking advice would first go to the general procurement advice on the web-site, then move on to more detail via the DCSF web site. Beyond that, further individual advice may be available from the Head of the ICT service, but for which there would be a charge.	This was previously in place, but sometime between Easter 2008 and July, our pages were deleted and Capita have been unable to restore them. The rebuilding of the ICT part of the system is hoped to be completed by Christmas 2008.

Rec No 7 **Rating** Merits Attention **Responsible Officer** Keith Forrest **Action Date** 30/09/2007 **Status** Not Implemented **Revised Date**

Control Issue	**Recommendation**
Children and Young People's Services (ICT) was not maintaining a list of approved ICT suppliers, but was "informally" recommending firms from an "unofficial" list.	We recommend that Children and Young People's Services (ICT) should not under any circumstances refer schools to any suppliers, unless the LA has appropriately developed and is maintaining an approved list of ICT suppliers. Any such approved list should be developed under the guidance of the Council's Head of Procurement.

Action_Details	**Update Comments**
It is proposed to have no involvement in maintaining an approved list of ICT suppliers. Schools will not, therefore, be referred either formally or informally to any recommended supplier.	Implemented. Status Updated 14 Sept 09 - in the absence of any procurement advice to schools on CYP ICT, Peter Simpson has started to send the unofficial list back out to schools with no accompanying wording i.e. in writing advice about this list is not an approved list etc.

Department:	**Corporate & Adult Services**

Job Name	1005 C&AS Debtors - Credit Notes	**Report Issued** 29/06/2007

Rec No 1 **Rating** Merits Attention **Responsible Officer** Stephen Meynell **Action Date** 30/04/2007 **Status** Being Implemented **Revised Date** 31/12/2008

Control Issue	**Recommendation**
A secondary check of the calculations for the amounts to be credited to the debtor account was not evidence for all credit notes in the sample.	We recommend all secondary checks of the calculation for credit notes are evidenced with the signature of the officer performing the check and the date it was undertaken.

Action Details	**Update Comments**
Specific instances referred to in the text need bringing to our attention	These secondary checks will be performed by December 2008 on a prioritised basis due to the number of credit notes raised. Any items over £500 will be reviewed and initialled on the source document. We have already carried out some credit note checks but need to formalise the system for this and also review lesser value items on a random basis.

Rec No 2 **Rating** Significant **Responsible Officer** Stephen Meynell **Action Date** 30/04/2007 **Status** Being Implemented **Revised Date**

Control Issue	**Recommendation**
The CODAS system is unable to enforce a segregation of duties which ensures that the person who raises the original invoice is unable to raise a credit note against that invoice.	We recommend that through procedural controls, management ensures that only designated officers are authorised to process credit notes. These designated officers should not also have any responsibility for raising invoices. When the Oracle Financials system is in place, management should ensure that the system enforces an appropriate separation of duties, via access controls, which ensures that an employee cannot raise both credit notes and debtors invoices.

Action Details	**Update Comments**
This is an issue that should be dealt with through the rollout of Oracle. I agree with the principle being proposed. However the 'management' should be within the Oracle team to determine the systems authorisation process. In the interim we can ensure authorisation before inputting. The actual system of raising invoices is under review.	Following the roll out of Oracle the system does however allow credit notes to be issued by the person raising the invoice. Practically in C&AS (Markets and Estates) this is necessary due to the limited resources available within the Finance Team. Credits can only be raised in respect of the line items on a specific invoice which removes the ad hoc nature of being able to raise credits. A periodic check will be performed based on a report available from Oracle Discoverer (Credit Memo Report between specific dates) Credit memos are raised by CM reference and then the original invoice number where the charge had been made. We need to look at the source of why so many credits are raised but this section is not unique as other areas appear to raise more credits than this department. I will raise the authorisation of Credit Memos at the next AR User group which is a cross departmental meeting on Wed 19/11/08 so that we can attempt to adopt a consistent approach to credit memo approvals. I expect to have reviewed the major credit note items by the end of December 2008.

Department:	Regeneration & Community

Job Name	1004	R&C Debtors - Credit Notes	Report Issued 29/06/2007

Rec No 3 **Rating** Significant **Responsible Officer** Peter Ireson **Action Date** 30/09/2007 **Status** Not Implemented **Revised Date** 30/04/2009

Control Issue	Recommendation
The CODAS system is unable to enforce a segregation of duties which ensures that the person who raises the original invoice is unable to raise a credit note against that invoice.	We recommend that through procedural controls, management ensures that only designated officers are authorised to process credit notes. These designated officers should not also have any responsibility for raising invoices. When the Oracle Financials system is in place, management should ensure that the system enforces an appropriate separation of duties, via access controls, which ensures that an employee cannot raise both credit notes and

Action Details	Update Comments
Currently the new oracle system is being introduced, we will review this issue and suggest a corrective course of action, when we have a better understanding of the level of control it is able to offer.	Due to staff shortage and the current re-structure of Derby LIVE we have been unable to implement this recommendation. We should be able to implement when the restructure is compete April 09

Rec No 4 **Rating** Significant **Responsible Officer** Peter Ireson **Action Date** 30/06/2007 **Status** Not Implemented **Revised Date**

Control Issue	Recommendation
Checks were not performed which confirmed that only approved credit notes had been input to the debtors system.	We recommend that following input of approved credit notes to the debtors system checks are undertaken which demonstrate that the number and value of credit notes input agrees with the number and value of credit notes authorised. It would not be appropriate to determine the best way of achieving this control until the Oracle Financials system has replaced the CODAS system in April 2007.

Action Details	Update Comments
We will look at the best way of achieving this control as soon as possible. Although Oracle is now in place, staff processing debtor invoices, do not fully understand the system's full capabilities. In the meantime, all credit notes that have been processed will be checked and signed off against the authorised credit by the person's line manager.	This has not been implement due to new staff members in admin section currently being trained. We would welcome further guidance and support on implementing this from audit.

Job Name	608	RTI Chellaston	Report Issued 21/06/2007

Rec No 2 **Rating** Merits Attention **Responsible Officer** Jim Connolly **Action Date** 31/08/2007 **Status** Being Implemented **Revised Date**

Control Issue	Recommendation
There appears to be a lack of monitoring of the achievement of a key element of the scheme namely the production of Flag posts.	We recommend that performance indicators are detailed in the BRTIS. These should include target completion dates which are closely monitored by designated officers. Appropriate and timely remedial action should be taken to address areas poor performance.

Action Details	Update Comments
Weekly project monitoring and monthly HMTC (Highway Maintenance Term Contract) works programme monitoring will continue.The existing contract performance indicator "Key Performance Indicator 5 – Timely Completion" will be developed and linked to the model payment mechanism under the new HMTC (August 2007). Consideration will be given to linking "supply chain management" into the overall performance management framework under the new HMTC. The Partnership Board under the new HMTC will lead on poor or inadequate performance delivery. The appointment of a Contracts Manager for the new HMTC in association with the preferred bidder and the associated payment model will drive	These meetings continued until contract end in August 2007, although the degree of engagement by MHM was limited. During the preferred bidder stage of the tender for the new HMTC a series of operational performance indicators were recognised for year 1. These were established from the 3 key areas identified relating to poor performance in the previous contract. These were health and safety, quality and timeliness of the works (commencement and completion times). The indicators measure the performance of the contractor and their sub-contractors or suppliers and are directly linked to the payment mechanism.

Performance is checked via agreed PI's, some of which then effect the payment mechanism. There was some delay in agreeing these but the relevant PI's are now reviewed by Board and the payment mechanism is now being utilised. The Board also has committed to an annual health check. This was undertaken in the summer and a subsequent Improvement Programme is now being undertaken, including a review of PI's, including those that affect the payment mechanism.

A Contract Manager post created in the summer of 2007 and was subsequently filled in the autumn by Stewart Corbett. He plays a pivotal role in running and developing the contract, including the production of PI's and the running of the payment mechanism.

| **Rec No** 3 | **Rating** Significant | **Responsible Officer** Jim Connolly | **Action Date** 31/08/2007 | **Status** Being Implemented | **Revised Date** |

Control Issue

A contributing factor to the delay in the scheme was that the Contractor was unwillingly to commit further resources to the scheme as they were experiencing a peak in their workload which stretched their existing resources.

Recommendation

We recommend that an appropriate performance management structure is introduced which focuses on contract delivery. Commencement and completion dates will be agreed with the Contractor for each scheme with payment made for the works upon completion and interim payments avoided. An appointment of a Contracts Manager will help

Action Details

The cornerstone of the HMTC will be the performance management system and its associated linkage to the model payment requirements under the contract. The performance management system for Year 1 and Years 2 to 5 is being developed with the preferred bidder. Key to delivering on target (commencement and completion) will be the associated incentive arrangements within a bonus/charge payment model. The Partnership Board will approve all performance indicators in association with an incentivised payment model. Contract payments will be made in accordance with the contract terms. It is intended to include a provision for interim payments on high order value works only. The Partnership Board will decide the appropriate minimum value of interim payments taking into account expert opinion and the other terms and conditions of the contract. An appointment of a Contracts Manager is considered essential for a contract of this

Update Comments

See Comment above under 2
Performance is checked via agreed PI's, some of which then effect the payment mechanism. There was some delay in agreeing these but the relevant PI's are now reviewed by Board and the payment mechanism is now being utilised. The Board also has committed to an annual health check. This was undertaken in the summer and a subsequent Improvement Programme is now being undertaken, including a review of PI's, including those that affect the payment mechanism.
This was not possible in the choice of contract terms which does not allow withholding payment in this way on scheme works. Programming commitments by Carillion are currently satisfactory in any event.

| **Rec No** 4 | **Rating** Significant | **Responsible Officer** Jim Connolly | **Action Date** 31/08/2007 | **Status** Being Implemented | **Revised Date** |

Control Issue

It appeared that MHM Ltd gangs working on the Chellaston BRTIS were redirected to alternative schemes that were of a higher priority for example, if urgent minor repairs were required to the highway. This caused delay with the completion of the Chellaston BRTIS.

Recommendation

We recommend that schemes are continuously monitored and assessed as to their priority including the impact subsequent delays may have on the completion of other schemes. In addition, the introduction of an appropriate performance management structure which focuses on contract delivery, outlined in recommendation 3, will assist

Action Details

Weekly project monitoring and monthly HMTC (Highway Maintenance Term Contract) works programme monitoring will continue. The existing contract performance indicator "Key Performance Indicator 5 – Timely Completion" will be developed and linked to the model payment mechanism under the new HMTC (August 2007). Consideration will be given to linking "supply chain management" into the overall performance management framework under the new HMTC. The Partnership Board under the new HMTC will lead on poor or inadequate performance delivery.

Update Comments

See Comment above under 2
See Comment above under 2
See Comment above under 2

| **Department:** | Resources |

| **Job Name** 750 Derwent Community Team - Project Control | **Report Issued** 27/03/2008 |

| **Rec No** 7 | **Rating** Merits Attention | **Responsible Officer** Martyn Marples | **Action Date** 31/05/2008 | **Status** Being Implemented | **Revised Date** |

Control Issue

Recommendation

At the time when the Derventio project was considered, an appropriate risk assessment was not produced. From 2006, 'The Project Toolkit' provides guidance on how to undertake a risk assessment on each project.

We recommend that the Director of Derwent Community Team ensures that all future project appraisals comply with the minimum standards set out in the NDC guidance and best practice in relation to risk, and that adherence to the standards is monitored.

Action Details

A risk assessment register will be introduced as part of the governance arrangements for approval and management of projects that are approved for NDC funding. Individual risks will also be comprehensively assessed for each project as part of the approval process.

Update Comments

The new project application specifically asks for details relating to risks and contingency plans associated with the project. This includes identifying the risk, the impact and probability of the risk and any contingency plans that project has in order to mitigate the risks identified. The Derwent Community Team is also in the process of compiling a Risk Register for all its current projects and known risks.