

Report of the Head of Audit and
Risk Management

INTERNAL AUDIT – PROGRESS REPORT

RECOMMENDATION

- 1.1 To note the activity and performance of Internal Audit in the period 1 March 2009 to 31 May 2009 and to comment accordingly.

SUPPORTING INFORMATION

- 2.1 This report summarises the internal audit work completed in the period from 1 March 2009 to 31 May 2009 and seeks a decision by the Committee to determine the audit reports it wishes to review in more detail at the next meeting.

Summary of internal audit activity – 1 March 2009 to 31 May 2009

- 2.2 Appendix 2 summarises the output of internal audit for the period. During the period 1 March 2009 to 31 May 2009, 16 audits were finalised. This total excludes 11 Financial Management Standard in Schools (FMSiS) external assessments and 7 audits for external organisations.
- 2.3 Appendix 3 provides details of internal audit's overall opinion on the adequacy of the level of internal control for each of the 16 audit reviews finalised in the period and the number of recommendations made for each review. Table 1 following provides an analysis of audit opinion on the system of control. Appendix 4 provides members with the main issues relating to each completed audit.

Table 1: Overall Audit Opinion in audits finalised between 1 March 2009 and 31 May 2009.

Department	Good	Satisfactory	Marginal	Unsatisfactory	Unsound	No Opinion	Total
Regeneration & Community							0
Children & Young People	1	1				1	3
Resources	1	3	1			3	8
Environmental Services	1					2	3
Corporate & Adult Services	2						2
Total	5	4	1	0	0	6	16

Note: This table does not include any audits undertaken on behalf of external bodies or the external assessment of schools in respect of FMSiS.

- 2.4 As a general policy, all audits leading to a rating of “unsound” or “unsatisfactory” will be brought to the Committee’s specific attention. In the period, there have not been any audits which have rated the overall control in the area/service under review as unsatisfactory or unsound. Appendix 3 contains a brief definition for each category of control rating.
- 2.5 At the 2008-9 year-end the Internal Audit Section has achieved a productivity rate of 75.9%. The target for the year was 73%. During the period, a total of 416.50 days has been spent on audit reviews within departments. The breakdown by department is shown in Table 2 below:

Table 2: Analysis of Audit time spent by Department in the period from 1 March 2009 to 31 May 2009

Department	Actual Days
Regeneration and Community	25.00
Children and Young People	82.50
Resources	161.00
Environmental Services	89.50
Corporate and Adult Services	58.50
Total	416.50

- 2.6 The main areas of internal audit work in the period from 1 March 2009 to 31 May 2009 have been on Investigations, general systems based audits, and on the FMSiS. (See Table 3 below.)

Table 3: Analysis of time spent by key areas of audit work in the period from 1 March 2009 to 31 May 2009

Audit Area	Actual Days
Advice to Clients	30.00
Investigations	96.75
Governance Audits	0.50
Follow-up Work	0.00
Certification Work	0.00
Performance Indicator Audits	0.25
Managed Audits	53.25
IT Audits	33.75
Contract/Partnership Audits	37.75
Systems Audits	61.50
Probity Audits	46.00
Schools FMSiS	56.75
Total	416.50

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Background papers:

List of appendices:

Appendix 1 - Implications

Appendix 2 - Internal Audit Output Summary 1 March to 31 May 2009

Appendix 3 - Opinion & Issues/Recommendations Made and Accepted in
Jobs Finalised during the period 1 March to 31 May 2009

Appendix 4 - Summary of Audit reports issued between 1 March and 31
May 2009

IMPLICATIONS

Financial

1. None directly arising.

Legal

2. Under the Accounts and Audit Regulations 2003, the Council is required to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. The functions of the Committee have been established to support delivery of corporate objectives by enhancing scrutiny of various aspects of the Council's controls and governance arrangements.

Internal Audit Output Summary – May 2009

May		Regeneration & Community	Children & Young People	Resources	Environmental Services	Corporate & Adult Services	External Bodies	Total
Allocated but not yet started	0%-10%							
Started - Fieldwork commenced	0%-80%	1	7	8	2	2	2	22
Awaiting Review - Fieldwork complete file submitted for review	80%	1		2	1	1		5
Reviewed but draft report not yet issued	90%			1	1	1		3
Draft Report issued but final report not issued	95%	1	5	4	1		2	13
Final Report issued	100%		12	2	1		3	18
Complete Job finalised but no formal report with recommendations issued	100%			2	2	1		5
	Total	3	24	19	8	5	7	66
Removed from Plan	0%							

Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 March 2009 to 31 May 2009

Job Name	Overall control rating	Issues Raised / Recommendations Made			Issues Accepted		
		Funda-mental	Signif-icant	Merits Attention	Funda-mental	Signif-icant	Merits Attention
Children & Young People							
Building Schools for the Future	Good	0	1	1	0	1	1
External Placements for Children	Satisfactory	0	3	7	0	3	7
Review & Maintenance of FMSiS 2008-9	N/A	0	0	0	0	0	0
Resources							
Accounts Payable: Supplier Accounts	Marginal	0	4	8	0	4	8
Cash Office Project	Good	0	1	7	0	1	7
National Fraud Initiative – Single Persons Discount 2008	Satisfactory	0	0	0	0	0	0
Internal Data Matching / Continuous Auditing	N/A	0	0	0	0	0	0
Council Tax - Liability & Collections	Satisfactory	0	3	8	0	3	8
NNDR & Business Improvement District 2008-9	Satisfactory	0	2	6	0	2	6
IT Applications Risk Assessment	N/A	0	0	0	0	0	0
Government Connect IT Healthcheck	N/A	0	0	0	0	0	0
Environmental Services							
Trading Standards	Good	0	1	6	0	1	6
Disciplinary Investigation – USB data stick	N/A	0	0	0	0	0	0
Disciplinary Investigation – Mobile Phone	N/A	0	0	0	0	0	0
Corporate Services							
Contracts Procedures Rules – Review Group	Good	0	0	0	0	0	0
Printing & Dispatch of Cheques	Good	0	0	1	0	0	1
Total Recommendations Made		0	15	44	0	15	44

Table does not include the 7 audits finalised in respect of Internal Audit's external contracts or the 11 FMSiS external assessments where the primary schools achieved the Standard.

Unsound	means that the risks identified within the audit are major and fundamental improvements are required.
Unsatisfactory	means that the risks identified within the audit are unacceptable and significant changes should be made.
Marginal	means that the risks identified within the audit are either numerous or significant and require improvement.
Satisfactory	means that the risks identified within the audit are minimal or less significant but changes are required.
Good	means that the risks identified within the audit are minor and only a small amount of changes would be beneficial.

Summary of Audits Finalised during period 1 March 2009 to 31 May 2009

Introduction

The main findings in final audit reports issued are summarised below. It should be noted that this summary comments on key weaknesses found, as this is the focus of the recommendations. The full audit reports give a more rounded picture of the overall control environment, and to appreciate this broader picture, members should also take note of the overall control rating and the controls that were tested and found to be adequate.

Children & Young People

Building Schools For The Future

Overall control rating: Good

This audit focused on the adequacy of controls in place over the Building Schools for the Future project operating in Derby.

The following issues were considered to be the key control weaknesses:

- Technical Adviser invoices were being paid by Property Services and the Project Accountant was not being notified on a timely basis of this spend.
- External Advisers to the project provided their services without formal contracts in place.

All of the control issues raised within this report were accepted and positive action was agreed to be taken to address both recommendations with immediate effect.

External Placements For Children

Overall control rating: Satisfactory

This audit focused on the level of internal control and procedures in place for approving and justifying the decision for an external placement and processing payments.

The following issues were considered to be the key control weaknesses:

- The contract documents and terms and conditions agreed with providers for external placements were not contained within a standard format. The contract was formally agreed and authorised by the Assistant Director, but was not examined by the Council's legal division from a legal perspective in terms of accuracy and completeness.
- Highly sensitive and strictly confidential information on children and the external placement arrangements were held insecurely within an unlocked office.
- The Senior Contract Officer (SCO) had undertaken contract monitoring on an adhoc basis. The monitoring review was not recorded in a standard format, failing to provide a formal log of the review undertaken and any issues raised.

All 10 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of all 10 recommendations was to be completed by the end of May 2009.

Review & Maintenance of FMSiS 2008-9

Overall control rating: N/A

The audit approach to the FMSiS to provide schools with more proactive assistance in preparation for the external assessment was introduced in 2007/08. The supporting documentation used to assist the schools has been subject to ongoing review and update to further improve and enhance the process. Our FMSiS website has been updated to reflect these enhancements and we have regularly communicated the changes to schools via the School Circular.

As the secondary schools were due for reassessment in 2009/2010, we streamlined our approach to FMSiS assessments to deliver a more appropriate level of assistance.

Resources

Accounts Payable: Supplier Accounts

Overall control rating: Marginal

This audit focused on the level of internal control and procedures in place for creating and amending supplier accounts and generating payments using the One Time Supplier Accounts.

The following issues were considered to be the key control weaknesses:

- Access to the relevant modules of the Oracle Financials System to allow a user to create and amend supplier accounts was not restricted to designated officers who were solely responsible for creating and maintaining supplier account details.
- The user responsibilities made available by the Oracle Financials System failed to enforce a separation of duties, allowing an individual user access to create and amend a supplier account, generate an order, process an invoice payment, initiate a pay run and set up a bank on the system.
- The lack of independent checks being undertaken at the point of input to verify additions and amendments to supplier account details set up on the system are correct, legitimate and confirmed to source documentation.
- The lack of sufficiently robust checks being undertaken to verify that requests to amend sensitive supplier information were appropriate and legitimate.

All 12 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of all 12 recommendations was to be completed by the end of June 2009.

Cash Office Project

Overall control rating: Good

This audit focused on project entitled Implementing changes to cash collection and the public-facing cashier counters. As the project name suggests, alterations to the Cashiers

function were planned and this audit was designed to oversee the proposed changes to ensure risks were identified and controlled adequately.

The following issue was considered to be the key control weakness:

- The ability to pay by cash will not be available for all types of Council debts.

All 8 of the control issues raised within this report have been accepted and positive action has been agreed to be taken to address all these recommendations by the end of the project.

National Fraud Initiative – Single Persons Discount 2008

Overall control rating: Satisfactory

This matching exercise compared the data from the Council Tax system where a 25% discount due to sole occupancy was in place, with the corresponding record for the same property from the Electoral Register. It reported on cases where the Electoral Register showed 2 or more residents at that address. On receipt of the results, the Council Tax system was checked to see if there had been a change in our records since the data had been extracted, as there had been some delay in the production of the report. For cases where the data still differed, contact was made with the Council Taxpayer, by way of a personal visit from the Inspection Team, to ascertain when the change had taken place. The Council Tax account was then updated.

A second report was also produced where the Electoral Roll identified cases where there was someone in the property under the age of 18 at the time of the Electoral Roll canvass, so that these accounts could either be amended or flagged so that the account could be updated in the future. The two reports resulted in 717 accounts being updated with a clawback of £157,099.58 and 214 account updates with a clawback of £41,237.23 respectively. A total of 9841 lines of data were scrutinised.

The Council Tax system has now been updated with indicators to allow for updates to be made promptly. Within the service there has also been a change so that where changes to occupancy occur to Benefit accounts, the Council Tax account is updated. For non-Benefit accounts, reminders to customers are issued with all documents. This exercise is due for repetition at the end of 2009, with the data due back to us in early 2010. We expect that the ongoing data matching we are carrying out in house will reduce the number of cases to be checked in future iterations.

Internal Data Matching / Continuous Auditing

Overall control rating: N/A

We completed a comprehensive data mapping exercise to identify the data that was required to satisfy the tests the auditors had developed and potential areas for development. This involved working with Systems Administrators who often have a greater understanding of the Database model for their given Systems. Part of this mapping exercise was to also ensure we had the appropriate SQL privileges to be able to query all tables and views and be able to retrieve the necessary data.

Secondly, we had to identify the appropriate storage to store the extracts. We ensured both security and storage capacity were appropriate so subsequently requested a private network drive with 400GB of storage. A protocol has been agreed and a policy established. These cover details about how we obtain (lawfully), store, process, disclose and destroy all data that will be matched and analyzed. All protocols and policies had input

from legal representatives and data protection officers. In addition, to justify this work is justified, all our protocols and policies are subject to senior manager, unions, and member approval.

Council Tax - Liability & Collections

Overall control rating: Satisfactory

This audit focused on the processes and procedures relating to Council Tax liability and collections over the 2008/09 financial year.

The following issues were considered to be the key control weaknesses:

- Academy integrity reports which list exceptions were not being reviewed and acted upon by management.
- Both Council Tax officers and Derby Direct officers were able to take payments through Derby Direct and action discounts and exemptions on the Academy system.
- There was no Senior Officer review of the suspense account and suspense account records.

All 11 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of 6 recommendations was to be completed by the end of June 2009, 4 further recommendations were to be completed by the end of December 2009 with the remaining issue to be completed by the end of March 2010.

NNDR & Business Improvement District 2008-9

Overall control rating: Satisfactory

This audit focused on the controls in place over NNDR Liability, including the reliefs and exemptions granted, as well as considering the controls operating around the BID Levy in this financial year.

The following issues were considered to be the key control weaknesses:

- During the 2008/09 financial year there had been only ad hoc reminder runs to identify businesses that had not paid the BID Levy and pursue them to recover the monies owed.
- The debt recover terms of the BID Operating Agreement were not adhered to during the 2008/09 financial year.

All 8 of the control issues raised within this report were accepted and positive action was agreed to be taken to address the recommendations by September 2009.

IT Applications Risk Assessment

Overall control rating: N/A

The IT Application Risk Assessment was conducted to identify which Applications were of higher risk to the common IT related risks (communications failure, loss of sensitive data etc). We consulted with IT Liaison Officers to identify a comprehensive list of corporate Applications. Then we formulated a list of risk factors. To do this, we considered potential vulnerabilities, and threat sources. We also considered legislative compliance issues that often dictate where priorities lay in future IT Audits.

The final risk scores combined vulnerability likelihood against vulnerability impact. This gave us the platform to develop our risk matrix, which calculated and grouped applications into high risk, medium risk or low risk categories. We identified the higher risk applications and these were fed into a strategic IT Audit plan for the forthcoming years. Some of the higher risk applications included Oracle E-Business Suite, SWIFT, and the Academy Applications. We found that the higher risk Applications proved to be those with the greatest external exposure (i.e. public facing Systems, remote access platforms etc).

Government Connect - IT Healthcheck

Overall control rating: N/A

The GCSX Code of Connection (CoCo) is a list of security controls with which all Local Authorities must be compliant before their GCSX circuit can be activated. GCSX stands for Government Connect Secure Extranet. It is a secure private Wide-Area Network (WAN) which enables secure interactions between connected Local Authorities and organisations. GCSX is connected to the Government Secure Intranet (GSI), which also enables secure interactions between local authorities and central government departments and national bodies.

Internal Audit was asked by the Head of Strategic Infrastructure to ensure that the Council's internal operating procedures and controls relating to the CoCo were fit for purpose. One of the requirements of the Government Connect CoCo is that Local Authorities need to ensure that an IT Health Check is performed every year. Accordingly, for the Council to adhere to the CoCo, an IT Health Check test plan had to be in place by a certain deadline.

Internal Audit put together a list of best practice test ideas, and prepared a business case to procure a set of CESG documents that support Government Connect. CESG is the Information Assurance arm of GCHQ. These will both be used by Internal Audit to perform the IT Health Check as part of the 2009-10 Audit Plan.

Environmental Services

Trading Standards

Overall control rating: Good

This audit focused on the Trading Standards Inspections Team practices and processes post June 2007.

The following issue was considered to be the key control weakness:

- There was an unacceptable number of inspection visits in backlog.

All 7 of the control issues raised within this report have been accepted and positive action has been agreed to be taken to address all issues. Positive action in respect of 3 recommendations has already been taken and the remaining 4 issues will be completed by the end of August 2009.

Disciplinary Investigations

Overall control rating: N/A

Internal Audit was requested to assist the investigating officers in two separate disciplinary cases by forensically examining a laptop, a Council mobile phone, a USB pen drive and

each suspended officers' email accounts. Internal Audit provided any relevant information identified to the investigating officers to assist with their investigations. One of the officers resigned before the matter went to a disciplinary hearing. Audit also assisted with the search of the other employee's office and with the employee's investigatory interview. The investigating officer has decided to proceed with this investigation to a formal disciplinary hearing, but Internal Audit is no longer required to be involved.

Corporate & Adult Services

Contracts Procedures Rules – Review Group

Overall control rating: Good

The Audit Manager was a member of the review team that sought to clarify and update the Council's Contract Procedure Rules and the Contract Procedure Rules for Schools.

We sought to ensure that the level of probity contained within the new rules was sufficient and to emphasise that compliance with the new Rules will be a requirement not a discretion.

The main improvements to control are considered to be:

- The number of "exemptions" to the Rules have been reduced.
- Only trained Approved Procuring Officers would be allowed to make purchases over £5,000.
- A senior officer in each department would be designated the Departmental Procurement Adviser.
- Departmental "Contract Registers" of all contracts over £30,000 will be set up and kept up to date.
- Departments will have proper arrangements and records in place for the receipt, custody and opening of quotes and tenders under £30,000.
- Trained "Tender Receipt Officers" will be appointed to deal with the receipt, custody and opening of tenders of between £30,000 and £75,000.
- All approved urgent waivers will be reported to the next Cabinet.
- All waivers to be reported quarterly to the Audit & Accounts Committee.
- Future minor amendments to the Rules can be made by the Assistant Director – Legal Services / Chief Legal Officer in consultation with the Head of Procurement and subsequently be reported to the Audit & Accounts Committee.
- The Rules are mandatory for all schools maintained by the Council, including foundation and aided.
- School wishing to waiver the requirement to tender must obtain the approval of the Council's Cabinet.

The new Contract Procedure Rules were approved by Full Council on 20 May 2009 and will come into effect on 1 July 2009.

Printing & Dispatch of Cheques

Overall control rating: Good

At the request of Democratic Services, Internal Audit examined the security and controls over cheque handling in the Reprographics Section prior to them being posted out.

We were satisfied that the majority of expected controls were in place and were working adequately, but it was possible to identify that the window envelopes used for the Post Office's 'Clean Mail' system contained a payment of some kind, as the words 'payment advice' and 'payment date' were clearly visible. Accordingly, there was a risk that these cheques could be identified and intercepted by potential fraudsters before they reached the intended recipients.

As a result it was resolved that the cheque template would be amended to ensure that the words 'payment' would be repositioned to remove them from view.