

INTERNAL AUDIT – PROGRESS REPORT

SUMMARY

- 1.1 After five months of the Audit Plan year, Internal Audit is now performing slightly behind its two reported performance targets.
- 1.2 One of the Audits finalised during the period achieved an unsatisfactory overall control rating and, as such, should receive the Committee's specific attention.

RECOMMENDATION

- 2.1 To note the activity and performance of Internal Audit in the period 1 September 2010 to 31 October 2010 and to comment accordingly.

REASONS FOR RECOMMENDATION

- 3.1 The Terms of Reference of the Audit & Accounts Committee requires that it considers a summary of internal audit activity (actual and proposed) and consider reports dealing with the management and performance of the providers of internal audit services.

SUPPORTING INFORMATION

- 4.1 This report summarises the internal audit work completed in the period from 1 September 2010 to 31 October 2010 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 September 2010 to 31 October 2010
- 4.2 Appendix 3 provides details of internal audit's overall opinion on the adequacy of the level of internal control for each of the 12 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. Appendices 4 and 5 provide members with the main issues relating to each completed audit. Appendix 5 covers exempt items which are not for publication.

Table 1: Overall Audit Opinion in audits finalised between 1 September 2010 and 31 October 2010.

Department	Good	Satisfactory	Marginal	Unsatisfactory	Unsound	No Opinion	Total
Regeneration & Community			1				1
Children & Young People	2	1	1				4
Resources	1	4	1	1			7
Environmental Services							
Corporate & Adult Services							
Total	3	5	3	1			12

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

- 4.3 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 been two audits which have rated the overall control in the area/service under review as unsatisfactory. Appendix 3 contains a brief definition for each category of control rating.
- 4.4 Currently the Internal Audit Section has achieved a productivity rate of 70.66%. The target for the year is 73.3%. During the period, a total of 208.50 days has been spent on audit reviews within departments. The breakdown by department is shown in Table 2 below:

Table 2: Analysis of time spent by Department in the period from 1 September 2010 to 31 October 2010

Department	Actual Days
Chief Executive’s Office	30.50
Children and Young People	24.25
Resources	115.25
Neighbourhoods	26.00
Adults, Health & Housing	12.50
Total	208.50

- 4.5 The days delivered during this period have also been analysed over the different types of audit work. (See Table 3 below.)

Table 3: Analysis of time spent by areas of audit work in the period 1 September 2010 to 31 October 2010

Audit Area	Actual Days
Advice to Clients	13.75
Investigations	19.75
Governance Audits	0.00
Follow-up Work	6.25
Certification Work	0.00
Performance Indicator Audits	5.50
Managed Audits	12.25
IT Audits	49.00
Contract/Partnership Audits	2.25
Systems Audits	35.50
Probity Audits	50.75
Schools FMSiS	13.50
Total	208.50

- 4.6 By 31 October 2010, Internal Audit had delivered 37.2% of Derby City Council's annual Audit Plan and the target for the same period was 37.9% completion.

OTHER OPTIONS CONSIDERED

- 5.1 Not applicable.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Service Director(s) Other(s)	Richard Boneham, Head of Audit & Risk Management
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For more information contact: Background papers: List of appendices:	Adrian Manifold, Audit Manager, 01332 643281 adrian.manifold@derby.gov.uk None Appendix 1 - Implications Appendix 2 - Internal Audit Output Summary 1 September 2010 to 31 October 2010 Appendix 3 - Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 September 2010 to 31 October 2010 Appendix 4 - Summary of Audit reports issued between 1 September 2010 to 31 October 2010 Appendix 5 - Summary of Audit reports issued between 1 September 2010 to 31 October 2010 (Not for Publication)
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IMPLICATIONS

Financial

- 1.1 None directly arising.

Legal

- 2.1 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

- 3.1 None directly arising.

Equalities Impact

- 4.1 None directly arising.

Health and Safety

- 5.1 None directly arising.

Carbon commitment

- 6.1 None directly arising.

Value for money

- 7.1 None directly arising.

Corporate objectives and priorities for change

- 8.1 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 – October 2010

August		Chief Executives	Children & Young People	Resources	Neighbourhoods	Adults, Health & Housing	Derby Homes	Fire & Rescue	Amber Valley	South Derbyshire	Other External Bodies	Total
	%											
Not Allocated		2		6	2	2		1				13
Allocated but not yet started	0%-10%		23	8			3	3	5	3		45
Started - Fieldwork commenced	0%-80%	2	4	12	1	1	4	3	6	4		37
Awaiting Review - Fieldwork complete and file submitted for review	80%			1		2	1	2		1		7
Reviewed but draft report not yet issued	90%			4	1							5
Draft Report issued but final report not issued	95%	1		2	1							4
Final Report issued	100%	3	7	13	2	3			2	1	1	32
Complete Job finalised but no formal report with recommendations issued	100%		6	3								9
	Total	8	40	49	7	8	8	9	13	9	1	152
Removed from Plan	0%								1			1

Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 Sep 2010 to 31 Oct 2010

Job Name	Overall control rating	Issues Raised / Recommendations Made			Issues Accepted		
		Funda-mental	Signif-icant	Merits Attention	Funda-mental	Signif-icant	Merits Attention
Chief Executive's Office							
Network Printer Security	Marginal	0	5	0	0	5	0
Children & Young People							
Integrated Disabled Children's Service	Good	0	1	5	0	1	5
NI 085 - Post 16 participation in physical sciences	Satisfactory	0	2	0	0	2	0
NI 088 - % of schools providing extended services	Good	0	0	0	0	0	0
Soft-Box - IT System Security	Marginal	0	6	1	0	6	1
Resources							
Web Applications - SQL Injection / XSS Attacks	Marginal	0	7	1	0	7	1
Vision - Application Audit	Satisfactory	0	4	3	0	4	3
ContactPoint IT Accreditation	Satisfactory	0	3	0	0	3	0
Pre-Employment Checks	Unsatisfactory	0	7	6	0	7	6
Payroll 2009-10	Satisfactory	0	1	2	0	1	2
NNDR 2009-10	Satisfactory	0	2	4	0	2	4
Teachers Pension Return TR17 2009-10	Good	0	0	0	0	0	0
Neighbourhoods							
Adults, Health & Housing							
Total Recommendations Made		0	38	22	0	38	22

Table does not include 4 audit finalised in respect of Internal Audit's external contracts or the 1 FMSiS external assessment.

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 either no risks have been found or 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 September 2010 to 31 October 2010

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

Integrated Disabled Children's Service

Overall control rating: Good

This audit focused on the effectiveness of the systems of internal control administered by the Integrated Disabled Children's Service from the partnership agreement between Derby City Council and the Derby City Primary Care Trust.

From the 22 key controls evaluated in this audit review, 15 were considered to provide adequate control and 7 contained weaknesses. The following issues were considered to be the key control weaknesses:

- The Integrated Disabled Children's Service pooled fund accounts were not being audited and certified as required by the Partnership Agreement between Derby City Council and the Derby City PCT.
- The Integrated Disabled Children's Service did not have an up-to-date inventory of all material equipment requiring insurance cover.
- Insurance cover was being provided for the Integrated Disabled Children's Service through the Council's blanket insurance policy but payment for this cover was not being re-charged to the pooled fund.
- Financial information was not being submitted to the Partnership Management Board within 6 wks of the end of each Quarter, as required by the Partnership Agreement between Derby City Council and the Derby City PCT.
- Formal budgeting exercises were not being undertaken in conjunction with Derby City PCT and the budget was not being formally agreed with the Partnership Management Board.
- There had been no Pooled Budget Meetings held between the Council and the Derby City PCT between January and July 2010 and prior to this attendance from Derby City PCT Finance had been irregular.

All 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 1 recommendation was due to be taken by the end of November 2010, 4 recommendations were due to be addressed by the end of December 2010 and the remaining issue was due to be addressed by the end of February 2011.

NI 085 - Post 16 Participation in Physical Sciences

Overall control rating: Satisfactory

The Audit Commission Key Lines of Enquiry (KLOE) for Data Quality require Council's to have in place effective arrangements for the monitoring and review of data quality. Internal Audit reviews the accuracy and completeness of performance information as part of these arrangements. National Indicator 85 on "Post-16 participation in physical sciences ('A' Level Physics, Chemistry and Maths)" was included in the sample of performance indicators selected for review during 2010/11.

From the 17 key controls evaluated in this audit review, 10 were considered to provide adequate control and 7 contained weaknesses. The following issues were considered to be the key control weaknesses:

- The reported performance figures for 2009/10 had not been calculated in line with the required definition and had been incorrectly reported.
- The Compiling Officer did not hold a copy of the definition for this indicator or have a documented methodology in place for deriving the performance figures, which resulted in incorrect performance figures being reported.

Both control issues were accepted and positive action was agreed to be taken by the end of February 2011.

NI 088 - % of Schools Providing Extended Services

Overall control rating: Good

The Audit Commission Key Lines of Enquiry (KLOE) for Data Quality require Council's to have in place effective arrangements for the monitoring and review of data quality. Internal Audit reviews the accuracy and completeness of performance information as part of these arrangements. National Indicator 88 on the "Number of extended schools services" was included in the sample of performance indicators selected for review during 2010/11.

From the 17 key controls evaluated in this audit review, all were considered to provide adequate control and none contained weaknesses.

Resources

Pre-Employment Checks

Overall control rating: Unsatisfactory

This audit was undertaken as a result of recent frauds committed by staff, who, on further investigation, should not have passed pre-employment checks and a report from the Counter Terrorism Security Adviser for Derbyshire Constabulary indicated that personnel security was insufficient. This audit focused on the checks recorded as having been carried out on new employees since November 2009 when the pre-employment check guidance was issued.

From the 25 key controls evaluated in this audit review, 1 was considered to provide adequate control and 24 contained weaknesses. The following issues were considered to be the key control weaknesses:

- The guidance on pre-employment checks given to recruiters was incomplete and did not meet CPNI Best Practice standards in relation to checking the applicant's history.

- From the records held in personal files by the ESC there was insufficient evidence to demonstrate that the required level of pre-employment checking had been carried out by management.
- The Council was not obtaining previous employment references covering a sufficient period time and gaps in employment history were not robustly investigated.
- Inadequate pre-employment checks had been carried out by the third party company supplying agency staff.
- The Council did not carry out financial vetting of prospective employees for any post.
- Managers were undertaking pre-employment checks without specific training and must call on the expertise held in the ESC.
- The pro forma that was used to record pre-employment checks did not meet best practice standards and was not saved with the recruitment documents to provide evidence of the checks having been carried out. The effectiveness of pre-employment checking was not being measured or recorded.

All 13 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 2 recommendations was to be completed by the end of September 2010. Another recommendation was to be addressed by the end of November 2010 and the remaining 10 recommendations were to be addressed by the end of March 2011.

Payroll - 2009-10

Overall control rating: Satisfactory

This audit focused on the processing of payroll transactions for starters, leavers and variations to pay since the formation of the Employee Service Centre (ESC).

From the 6 key controls evaluated in this audit review, 2 were considered to provide adequate control and 4 contained weaknesses. The following issues were considered to be the key control weaknesses:

- For a sample of leavers there were incomplete or inadequate instructions available to support the changes to Vision. There were also cases where the notification came after the leaving date.
- The calculations sheet was missing for 1 of the 8 sampled maternity cases.
- Variations to pay were made without appropriate authorisation. Also an honoraria payment was made outside of the new on-line arrangements.

All 3 of the control issues raised within this report were accepted and positive action was agreed to be taken by 1 October 2010 to address all the issues.

NNDR - 2009-10

Overall control rating: Satisfactory

This audit focused on the operation of the controls employed in the NNDR system and in particular the deferral scheme, changes to liability, charitable relief and refunds.

From the 18 key controls evaluated in this audit review, 13 were considered to provide adequate control and only 5 contained weaknesses. The following issues were considered to be the key control weaknesses:

- There were 103 accounts in the name of 'The Ratepayer', where the owner of the property was unknown making debt recovery of £448K difficult.
- NNDR were not always receiving sufficient detail about changes in occupancy or ownership to fully facilitate the recovery process.
- There was no reconciliation undertaken of the total value of the system write-offs for a period to the total value of the period's authorised write-off forms and no separation of duties in the write off process.
- There were no clear guidelines in respect of granting discretionary relief.
- Discretionary relief was being authorised without the amounts of relief being recorded and without any regard to the budget position.
- The levels of staff that can authorise refunds did not afford the necessary level of control and there was no independent check of the refunds made.

All 6 of the control issues raised within this report were accepted, 2 recommendations had already been implemented. Positive action was agreed to be taken to address the remaining 4 recommendations by 31 October 2010.

Teachers Pension Return TR17 2009-10

Overall control rating: Good

The Chief Finance Officer is required to certify that the entries made in Part B of the annual TR17 Teachers' Pensions Return are correctly calculated and paid to Teachers' Pensions. Part B of the return is in respect of teachers whose salary payments are administered other than directly through the LA payroll. Through undertaking a series of tests, Internal Audit provides assurance that the entries on the return accurately reflect the deductions made and remitted. Under the Council's managed audit arrangements, External Audit seek to place reliance on this work.

External Audit was able to place total reliance on the work undertaken by Internal Audit.