

Report of the Head of Audit and  
Risk Management

## INTERNAL AUDIT – PROGRESS REPORT 2008/9

### RECOMMENDATION

- 1.1 To note the activity and performance of Internal Audit in the period 1 November 2008 to 28 February 2009 and to comment accordingly.

### SUPPORTING INFORMATION

- 2.1 This report summarises the internal audit work completed in the period from 1 November 2008 to 28 February 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 November 2008 to 28 February 2009**

- 2.2 Certain information pertaining to audit investigation work carried out is likely to reveal the identity of individuals and/or could relate to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime. Accordingly, a separate report has been produced that summarises audit activity on investigations that were concluded during the same period.
- 2.3 Appendix 2 summarises the output of internal audit for the period. During the period 1 November 2008 to 28 February 2009, 8 audits were finalised. This total excludes 18 Financial Management Standard in Schools (FMSiS) external assessments, 8 investigations and 2 audits for external organisations.
- 2.4 Appendix 3 provides details of internal audit's overall opinion on the adequacy of the level of internal control for each of the 8 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 November 2008 and 28 February 2009.

Department	Good	Satisfactory	Marginal	Unsatisfactory	Unsound	No Opinion	Total
Regeneration & Community	1						1
Children & Young People	2						2
Resources	2	1				2	5
Environmental Services							0
Corporate & Adult Services							0
<b>Total</b>	<b>5</b>	<b>1</b>				<b>2</b>	<b>8</b>

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

- 2.5 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.
- 2.6 Currently the Internal Audit Section has achieved a productivity rate of 75.2%. The target for the year is 73%. During the period, a total of 566.25 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 November 2008 to 28 February 2009

Department	Actual Days
Regeneration and Community	15.50
Children and Young People	103.75
Resources	231.25
Environmental Services	194.25
Corporate and Adult Services	21.50
<b>Total</b>	<b>566.25</b>

- 2.7 The main areas of internal audit work in the period from 1 November 2008 to 28 February 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 November 2008 to 28 February 2009

<b>Audit Area</b>	<b>Actual Days</b>
Advice to Clients	12.25
Investigations x 14	228.50
Governance Audits x 1	3.00
Follow-up Work	5.50
Certification Work x 2	11.75
Performance Indicator Audits x 3	10.00
Managed Audits x 9	70.00
IT Audits x 6	55.50
Contract/Partnership Audits x 4	19.75
Systems Audits x 6	54.25
Probity Audits x 5	38.00
Schools FMSiS x 29	57.75
<b>Total</b>	<b>566.25</b>

- 2.7. The audit plan is a flexible document and it is inevitably subject to some changes during the year as a result of emerging issues, investigations and changes in staffing resources.
- 2.8 Internal Audit's original Audit Plan for 2008-9 set aside a contingency of 240 days for investigations. As at 28 February 2009, 450 days had been spent on investigations. With investigations still ongoing, this figure will inevitably rise by the end of March 2009. Accordingly, it has been necessary to make further adjustments to the current Audit Plan. Planned Management and Administration time has been reduced by 60 days and three other planned audits have been removed from the Audit Plan totalling a further 75 days. Another 48 days planned to be spent on three audits already started in 2008-9 has also been deferred until next years Audit Plan.
- 2.9 Feedback from client satisfaction surveys received in 2008/9 rates the services provided by Internal Audit as "good" and do not indicate any problems that require action.

**For more information contact:** Richard Boneham, Head of Audit and Risk Management, 01332 255688  
richard.boneham@derby.gov.uk

**Background papers:**

**List of appendices:**

- Appendix 1 - Implications
- Appendix 2 - Internal Audit Output Summary 1 November to 28 February 2009
- Appendix 3 - Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 November to 28 February 2009
- Appendix 4 - Summary of Audit reports issued between 1 November to 28 February 2009

<b>IMPLICATIONS</b>
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**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 – 2008/9 Audit Reviews

February		Regeneration & Community	Children & Young People	Resources	Environmental Services	Corporate & Adult Services	External Bodies	
	%							Total
Not Allocated								
Allocated but not yet started	0%-10%		13				1	14
Started - Fieldwork commenced	0%-80%	2	8	15	5	2	5	37
Awaiting Review - Fieldwork complete file submitted for review	80%				1			1
Reviewed but draft report not yet issued	90%					1		1
Draft Report issued but final report not issued	95%		7	4			4	15
Final Report issued	100%	8	44	20	4	5	12	93
Complete Job finalised but no formal report with recommendations issued	100%	7	2	8	6	4		27
	Total	17	74	47	16	12	22	188
Removed from Plan	0%	1	4	1		1	1	8

## Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 November 2008 to 28 February 2008

Job Name	Overall control rating	Issues Raised / Recommendations Made			Issues Accepted		
		Funda-mental	Signif-icant	Merits Attention	Funda-mental	Signif-icant	Merits Attention
<b>Regeneration &amp; Community</b>							
Concessionary Travel (Gold Card)	Good	0	0	3	0	0	3
<b>Children &amp; Young People</b>							
LPSA2 Target 2 School Absences & Exclusions	Good	0	0	1	0	0	1
LPSA 2 Target 6 - Social & Leisure Opportunities for Disabled C&YP 2008-9	Good	0	0	0	0	0	0
<b>Resources</b>							
Teachers Pension Return TR17 2008-9 Preparation	N/A	0	0	0	0	0	0
H&CTB - 2008-9 - Administration & Overpayments	Good	0	1	7	0	1	7
LPSA2 - Pump Priming Grant Certification 2007-8	Satisfactory	0	0	0	0	0	0
Performance Indicator Self Assessment	N/A	0	0	0	0	0	0
IT Developments - 4Projects Extranet	Good	0	2	2	0	2	2
<u>Total Recommendations Made</u>		<b>0</b>	<b>3</b>	<b>13</b>	<b>0</b>	<b>3</b>	<b>13</b>

Table does not include 8 investigation audits, the 2 audits finalised in respect of Internal Audit's external contracts or the 18 FMSiS external assessments where the primary schools achieved the Standard.

## Summary of Audits Finalised during period 1 November 2008 to 28 February 2009 (Excluding Investigations)

### 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.

### Regeneration & Community

#### Concessionary Travel (Gold Card)

##### ***Overall control rating: Good***

This audit focused on the processes in respect of the issue of the cards to the Public and the arrangements for the re-imbursements to the Bus Operators.

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

- Application forms and proofs of disability were not always obtained from applicants at the Council House Reception.
- There was no review or authorisation of new applications.
- Reception staff did not have their 'own' sign-ons to the Route Wise Database.

All of the control issues raised within this report had been accepted and positive action was agreed to be taken to address 2 recommendations that merit attention by January 2009. The other recommendation had already been implemented.

### Children & Young People

#### LPSA2 Target 2 School Absences & Exclusions

##### ***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 and is required to verify systems in place for measuring LPSA 2 performance prior to submission of the grant claim. LPSA 2 Target 2 on "Improving attendance and inclusion in education" was included in the sample of performance indicators selected for review during 2008/09. This included 'The percentage of total absence (authorised and unauthorised absence) for primary schools and secondary schools, as measured by half-day sessions missed' and 'The number of confirmed permanent exclusions for all schools'.

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

- The Summary of Permanent Exclusions reports had not been signed and dated to demonstrate that accuracy checks had been undertaken.

The control issue was accepted and positive action has been agreed to address the recommendation.

### **LPSA 2 Target 6 - Social & Leisure Opportunities for Disabled C&YP 2008-9**

#### ***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. LPSA 2 Target 6 'Number of occasions on which disabled children and young people access community based social and leisure opportunities with significant help from the City Council and Partners' was reviewed during 2006/07 and 6 recommendations were made, 3 were considered significant and 3 were considered to merit attention.

Audit have conducted a follow-up of this audit as we were required to verify systems in place for measuring LPSA 2 performance prior to submission of the grant claim. Actions had been taken in order to address all 6 recommendations and they were now considered to provide adequate control. However, an additional minor weakness was identified in relation to the 2007/08 Performance Report. The additional control issue raised has now been addressed.

## **Resources**

### **Teachers Pension Return TR17 2008-09 preparation**

#### ***Overall control rating: N/A***

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. Internal Audit is required to provide assurance that the entries on the return accurately reflect the deductions made and remitted. External Audit seeks to place reliance on this work.

In preparation for the 2008-9 TR17 return (to be certified in 2009-10), it was necessary for Internal Audit to collect and collate the pension data available from schools. This work should help facilitate the timely certification of the return in 2009-10.

### **H&CTB - 2008-9 - Administration & Overpayments**

#### ***Overall control rating: Good***

This audit focused on the controls in place in relation to the administration of housing and council tax benefits as well as the process for identifying, recording and recovering overpayments of benefits.

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

- A number of Benefits staff had inappropriate access to the different modules within the Academy system.

All of the control issues raised within this report have been accepted and positive action has been agreed to be taken to address all 8 recommendations by April 2009.



## **LPSA2 - Pump Priming Grant Certification 2007-8**

### ***Overall control rating: Satisfactory***

Derby City Council and the Government entered into a Local Public Service Agreement (LPSA) for the period 1 April 2005 to 31 March 2008 to improve the services that the Council provides. A sum of £983,219 'pump priming' grant was paid in 2005 which had a number of conditions attached to the grant. The Government also agreed to pay a performance reward grant to the Council if the targets specified within the agreement were achieved.

Internal Audit were required to certify that the grant conditions were met, primarily verifying the pump priming grant had only be used to support eligible expenditure.

Internal Audit examined a sample of transactions covering the 3 year life of the projects specified in the Agreement. From the invoices, journals and payroll records examined Internal Audit were satisfied that all expenditure related to each project and was appropriate under the directions provided by ODPM in 2006. Certification was given by the required date of 31 December 2008.

## **Performance Indicator Self Assessment**

### ***Overall control rating: N/A***

Internal Audit developed a Performance Indicator Self Assessment questionnaire to evaluate the way all 51 Local Area Agreement (LAA) indicators were measured throughout the Council by assessing the effectiveness of each area of control.

Results from these self assessments were fed into our specially developed Performance Indicators database designed to evaluate the results of the self assessments and identify the performance indicators where it was considered that the measurement controls were weak and where the section could benefit from an Internal Audit review. Audit has evaluated the results of the self assessments, and has identified 11 Local Area Agreement (LAA) indicators to be reviewed in 2009-10. The self assessments also provide a degree of control assurance for some of the remaining Local Area Agreement (LAA) indicators.

## **IT Developments - 4Projects Extranet**

### ***Overall control rating: Good***

The Head of Procurement invited IT Audit to perform a technical review of a new document management system called 4projects that had been bought in for the Building Schools for the Future project. This audit focused on both the configuration of security controls within the 4Projects Extranet, and the administrative procedures detailed in the 4Projects Protocol.

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

- 4Projects Extranet passwords for accessing the System only needed to be 6 characters long, and without any specific complexity.
- Audit logs were not being reviewed by the Systems Administrators for indications of inappropriate or unusual activity.

All of the control issues within this report were accepted and positive action was agreed to taken on all 4 of the recommendations made by the end of March 2009.