



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
1 NOVEMBER 2007**

Report of the Head of Audit and
Risk Management

ITEM 5

INTERNAL AUDIT – HALF YEAR REPORT

RECOMMENDATION

- 1.1 To note the activity and performance of Internal Audit in the first half year of 2007/8 and to comment accordingly.
- 1.2 To approve the changes to the 2007/8 audit plan as detailed in Appendix 4.

SUPPORTING INFORMATION

- 2.1 The Internal Audit Plan for 2007/8 was reported to this Committee at its meeting on 28 June 2007. Performance of the Audit Section from 1 April to 31 May 2007 and 1 June to 31 August 2007 was reported at the June and September meetings.
- 2.2 Appendix 2 summarises the output of internal audit for the first half year. During the period 1 April 2007 to 30 September 2007, 39 audits were finalised. This total includes 8 audits for external bodies. In addition, 14 initial visits were made to primary schools as part of the work on the Financial Management Standard in Schools. Appendix 3 provides members with a summary of the main issues relating to audits completed during September 2007.
- 2.3 Table 1 following provides an analysis of audit opinion on the system of control for all finalised audits by department.

Table 1: Overall Audit Opinion in Final Reports issued to 30 September 2007.

Department	Good	Satis- factory	Marginal	Unsatis- factory	Unsound	No Opinion	Total
Regeneration & Community	1	3					4
Children & Young People	5	3					8
Resources	2	2	1			3	8
Environmental Services	3	1				1	5
Corporate & Adult Social Services	1	1	2			2	6
Total	12	10	3			6	31

Note: No opinion includes all investigation and certification work and audits providing advice on controls and systems where no report was written. This table does not include any audits undertaken

on behalf of external bodies or the initial visits made in respect of Financial Management Standard in Schools.

- 2.4 Based on the work carried out during the period 1 April 2007 to 30 September 2007, the Head of Audit and Risk Management has reached the opinion that there is an acceptable level of internal control within the Council's systems and procedures. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
- 2.5 In the first half of the year, the Internal Audit Section has achieved a productivity rate of 65.49%. The target for the year is 70%. A total of 650.75 days has been spent on audit reviews within departments. The breakdown by department is shown in Table 2 below:

Department	Actual Days
Regeneration and Community	46.75
Children and Young People	164.25
Resources	234.00
Environmental Services	147.50
Corporate and Adult Services	58.25
Total	650.75

- 2.6 The main areas of internal audit work in the half year period have been on the investigations in Environmental Services and Debtors and on the Financial Management Standard in Schools (FMSiS). Table 3 below provides a summary of the audit time spent on the key areas of audit activity during the period:

Table 3: Time spent on key areas of audit work in the period from 1 April to 30 September 2007

Audit Area	Actual Days
Financial Management Standard in Schools	119.25
Environmental Services – Original Investigation	16.75
Investigation – Joiners Shop	59.75
Investigation – Trading Standards	20.50
Investigation – Electrical Contracts	9.50
Investigation – Protected Disclosure	18.75
Investigation – Sensory Team	14.50
Investigation - Debtors	47.50
National Fraud Initiative	47.75
LAA Certification/Systems Work	25.25

- 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. Appendix 4 details changes to the audit plan and the reasons why. The current situation is that since the plan was approved, 9 new jobs have been added to the plan, while 12 jobs have been removed from the plan.
- 2.8 The level of vacancies within the Internal Audit section has been higher than anticipated. In order to deliver the key areas of the plan the Section will need to employ some additional resources. The Head of Audit and Risk Management is seeking to buy-in 120 days of additional audit capacity.
- 2.9 Feedback received from the Quality Control Questionnaires received in 2007/8 rates the Internal Audit Section as “good”. The only area where the Section is underperforming is in respect of the prompt issue of draft reports. A performance target has been established to make sure that this improves.

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Background papers:

List of appendices:

Appendix 1 - Implications

Appendix 2 - Internal Audit Output Summary 1 April to 30 September 2007

Appendix 3 - Summary of Audit reports issued in September 2007

Appendix 4 - Changes to the Internal Audit Plan 2007/8

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 – 2007/8 Audit Reviews

September	%	Regeneration & Community	Children & Young People	Resources	Environmental Services	Corporate & Adult Services	External Bodies	Total
Not Allocated		1	5	17			3	26
Allocated but not yet started	0%-10%		38	3			5	46
Started - Fieldwork commenced	0%-80%	4	37	9	4		5	59
Awaiting Review - Fieldwork complete file submitted for review	80%	1	2	3	1	2	1	10
Reviewed but draft report not yet issued	90%	2	1	1		1		5
Draft Report issued but final report not issued	95%		6		1			7
Final Report issued	100%	4	5	4	1	3	8	25
Complete Job finalised but no formal report with recommendations issued	100%		17	4	4	3		28
	Total	12	111	41	11	9	22	206
Removed from Plan	0%		3	3	3	2		11

Opinion and Issues/Recommendations Made and/or Accepted in Audits Finalised during the period 1 September 2007 to 30 September 2007

Job Name	Overall control rating	Issues Raised / Recommendations Made			Issues Accepted		
		Funda-mental	Signif-icant	Merits Attention	Funda-mental	Signif-icant	Merits Attention
Resources							
Schemes of Delegation	Marginal	0	0	0	0	0	0
Corporate and Adult Services							
Supporting people grant	N/A						
Asian Over 60's – Verification of expenditure	N/A						
BVPI 183a	Satisfactory	0	2	5	0	2	5
<u>Total Recommendations Made – Final reports</u>		0	2	5	0	2	5

Table does not include the 1 audit finalised in respect of Internal Audit's external contracts or the 7 FMSiS visits to primary schools.

Summary of Audits Finalised during September 2007

Scheme of Delegation

Overall control rating: Marginal

This audit focused on ensuring that each department's scheme of delegation is appropriate and up-to-date, systems and procedures are in place which ensure that any alterations to the Council's Constitution or its policies, structures or staffing, which may affect the scheme of delegation, are promptly communicated to a designated officer with responsibility for maintaining the department's scheme of delegation. Resources was chosen as the sample department for this exercise as a Scheme of Delegation was available. The review did make specific reference to those Schemes of Delegation in the other departments.

The main issues arising from the audit work were:

- One department did not have its own Scheme of Delegation.
- Departmental Schemes of Delegation were not always consistent in content and style.
- A corporate approach to developing and maintaining departmental Schemes of Delegation has not been developed.
- Departmental Schemes of Delegation do not make reference to partnerships, as required to achieve level 4 of the Audit Commission's key lines of enquiry for the use of resources.
- Council departments had not updated their Schemes of Delegation to reflect the Council restructure in April 2006.

- Controls do not ensure that adequate formal records are made which demonstrate all key decisions taken under delegated powers are appropriate and proper governance arrangements have been observed.

The Head of Audit and Risk Management has organised a cross departmental working group to consider key Governance issues. Having been briefed on the findings from this review, he has decided that rather than produce a formal report with recommendations, the findings from this work will be considered by the Working Group as part of their work programme.

Asian Over 60's

The Head of Audit and Risk Management provided an advisory role to the Commissioning Unit in Adult Social Services on the financial information supplied by the Asian Over 60's. This involved the review of all receipts and payments information submitted to support the grant payments.

Supporting People – Grant

Audit reviewed the Statement of Grant Usage with a view to offering assurance/advice on the process. The points arising from the review were:

- The submission had not been audited or approved by the Commissioning Board.
- The arrangements for next years claim, including audit arrangements, should be clarified with the DCLG.
- Clarification should be sought from the SP Helpdesk / DCLG over the correct accounting treatment for care leavers and other types of non grant income. Clarification should also be sought for the appropriateness of year end expenditure accruals to ensure that current practices are correct (as no guidance is offered in the determination).
- The reconciliation of SPLS to the financial ledger following each payment run is an important control which should be maintained. In addition, before the SOGU is submitted, an annual reconciliation of SPLS to the ledger should be completed with the reasons for differences clearly identified. This should be easier next year if the payment reconciliations are kept up to date.

BVPI 183a

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's review of the accuracy and completeness of performance information forms part of these arrangements. The Change Management and Performance Section's performance indicator risk assessment, identified BV 183a "Length of stay in temporary accommodation (Bed and Breakfast)", BV 203 "The percentage change in the average number of families placed in temporary accommodation", BV 213 "Housing Advice Service: preventing homelessness" and LPSA 2 Target 10 "The number of eligible, unintentionally homeless and in priority need, acceptances" as high risk indicators.

The main issues were considered to be that:

- The officer conducting management checks of the performance figures was not the nominated Accountable Officer and checks performed did not find errors that were

present. Also, evidence had not been signed and dated to confirm the checks had been undertaken.

- Client case files could not always be located by the Housing Advice Unit and those located did not always evidence the information recorded in Academy and used for calculating the performance figures.

Both of the control issues raised within this report were accepted and positive action was agreed to be taken to address both issues. The second issue was addressed immediately. The first will be implemented by the end of December 2007 as part of the Housing Data Quality audit process.

Changes to the Internal Audit Plan 2007/8

Audits Removed from Audit Plan		
Dept	Job Details	Reason
Regeneration and Community	Derby City Partnership	The time planned for this audit has been utilised to bring two other partnership related audits into the Plan as requested by the Corporate Director – Resources (See table below).
Children and Young People's	Procurement, Commissioning and Contracting	The increase in time dedicated to the FMSiS assessments, has meant that time is no longer available in this plan year to undertake this audits. This audit will be considered for inclusion in the 2008-9 Audit plan.
Children and Young People's	External Placements for Children	The increase in time dedicated to the FMSiS assessments, has meant that time is no longer available in this plan year to undertake this audits. This audit will be considered for inclusion in the 2008-9 Audit plan.
Children and Young People's	Assessment & Care Management - admission into care	The increase in time dedicated to the FMSiS assessments, has meant that time is no longer available in this plan year to undertake this audits. This audit will be considered for inclusion in the 2008-9 Audit Plan.
Environmental Services	Procurement	Ongoing investigation work in this department has meant that this audit, planned to examine control weaknesses in greater detail, has in part been incorporated into current investigation work. This audit will be considered for inclusion in the 2008-9 Audit Plan.
Environmental Services	Housing Repairs & Maintenance	Ongoing investigation work in this department has meant that this audit, planned to examine control weaknesses in greater detail, has in part been incorporated into current investigation work. This audit will be considered for inclusion in the 2008-9 Audit Plan.
Environmental Services	Select Lists / Tendering Procedures	Ongoing investigation work in this department has meant that this audit, planned to examine control weaknesses in greater detail, has in part been incorporated into current investigation work. This audit will be considered for inclusion in the 2008-9 Audit Plan.
Resources	Grants - Corporate Strategy	The time from this audit has been utilised to increase the planned activity on the NFI exercise.
Resources	Concessionary Travel - Eligibility	The time from this audit has been utilised to increase the planned activity on the NFI exercise.
Resources	Control of staff establishment	The time from this audit has been utilised to increase the planned activity on the NFI exercise.
Corporate and Adult Services	Equal Opportunities	Unplanned vacancies and unforeseen maternity leave have resulted in a reduction in days available to undertake lower risk audits.
Corporate and Adult Services	Housing Options Centre	Unplanned vacancies and unforeseen maternity leave have resulted in a reduction in days available to undertake lower risk audits.

Changes to the Internal Audit Plan 2007/8 (Continued)

Audits Introduced into Audit Plan		
Dept	Job Details	Reason
Regeneration and Community	Derwent Community Team - Project Control	This audit has been introduced at the request of Corporate Director – Resources. Time has been transferred from another Partnership related audit in the original Plan.
Regeneration and Community	Partnership - Governance	This audit has been introduced at the request of Corporate Director – Resources. Time has been transferred from another Partnership related audit in the original Plan.
Children and Young People's	Financial Management Standard in Schools (FMSiS) visits	As part of the revised approach to undertaking FMSiS assessments, it was decided that all primary, infant, special and nursery schools would be visited by the Audit team to receive guidance on the preparations necessary to achieve the Standard. This resulted in a significant increase in the number of days required to undertake this exercise.
Resources	Debtors Investigation - System Weaknesses	Following the investigatory work in the Debtors section which was concluded in May 2007, a significant amount of time has needed to be dedicated to ensuring that the control weaknesses are being adequately addressed.
Resources	NFI Matches 2006 (Additional Work)	The Audit Plan significantly underestimated the amount of time required to investigate all the matches produced by last year's revised data sets. Also Internal Audit has undertaken data matching work which was previously undertaken by Departmental staff.
Environmental Services	Investigation - Joiners Shop	Following the investigatory work in Environmental Services, further allegations were made which required formal investigation.
Environmental Services	Investigation - Electrical Contracts	Following an allegation referred to Audit by a Councillor, an investigation into the allocation of contracts was required.
Environmental Services	Investigation – Protected Disclosure	Following the investigatory work in Environmental Services, further allegations were made which required formal investigation.
Corporate and Adult Social Services	Investigation - Sensory Team	Following a request from management, Audit provided assistance to the investigatory officer by providing an independent analysis of documentary evidence.