

Internal Audit – Progress Report

SUMMARY

- 1.1 The report informs Members on the internal audit activity for the period from 1 September 2011 to 31 October 2011.
- 1.2 Five months into the Audit Plan year, Internal Audit was still behind in its productivity targets and was slightly behind in its service delivery target.
- 1.3 There were no audits finalised during the period that need to be brought to the specific attention of the Committee.

RECOMMENDATION

- 2.1 To note the activity and performance of Internal Audit in the period 1 September 2011 to 31 October 2011 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 2011 to 31 October 2011 and seeks a decision by the Committee to determine the audit reports it wishes to review in more detail at the next meeting.

4.2 To help management schedule their efforts to implement our recommendations or their alternative solutions, we have risk assessed each control weakness identified in our audits. For each recommendation a judgment was made on the likelihood of the risk occurring and the potential impact if the risk was to occur. From that risk assessment each recommendation has been given one of the following ratings:

- Critical risk.
- Significant risk.
- Moderate risk
- Low risk.

These ratings provide managers with an indication of the importance of recommendations as perceived by Audit; they do not form part of the risk management process; nor do they reflect the timeframe within which these recommendations can be addressed. These matters are still for management to determine.

4.3 Summaries of all audit reports are to be reported to Audit and Accounts Committee together with the management responses as part of Internal Audit's reports to Committee on progress made against the Audit Plan.

All audit reviews will contain an overall opinion based on the adequacy of the level of internal control in existence at the time of the audit. This will be graded as either:

- **None** - We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Limited** - We are able to offer limited assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Reasonable** - We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives. .
- **Comprehensive** - We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

This report rating will be determined by the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks. Any audits that receive a None or Limited assurance assessment will be highlighted to the Audit and Accounts Committee in Audit's progress reports.

Summary of internal audit activity – 1 September 2011 to 31 October 2011

- 4.4 Appendix 3 provides details of internal audit's overall opinion on the adequacy of the level of internal control for each of the 10 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 in the period.

Assurance Level	Chief Executive's Office	Children & Young People	Resources	Neighbourhoods	Adults, Health & Housing	Total
Comprehensive			1	3		4
Reasonable		1	2		1	4
Limited						0
None						0
N/A			1	1		2
Total	0	1	4	4	1	10

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

- 4.5 As a general policy, all audits leading to a rating of "Limited" "None" will be brought to the Committee's specific attention. In the period, there have been no audits which have rated the overall control in the area/service under review as either Limited or None. Appendix 3 contains a brief definition for each category of control rating.
- 4.6 Currently the Internal Audit Section has achieved a productivity rate of 71.94%. The target for the year is 73.5%. During the period, a total of 250.25 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 Directorate in the period

Directorate	Actual Days
Chief Executive's Office	18.00
Children and Young People	14.25
Resources	130.50
Neighbourhoods	48.00
Adults, Health & Housing	39.50
Total	250.25

- 4.7 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

Audit Area	Actual Days
Advice to Customers	19.75
Investigations	34.25
Governance Audits	0.00
Follow-up Work	9.75
Certification Work	5.25
Performance Indicator Audits	1.00
Managed Audits	15.50
IT Audits	45.75
Contract/Partnership Audits	11.75
Systems Audits	71.25
Probity Audits	26.25
Schools	9.75
Total	250.25

- 4.8 By 31 October, Internal Audit had delivered 37.2% of the annual Audit Plan and the target for the same period was 37.9% completion.
- 4.9 The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. Appendix 5 summarises the average score for each category from the 24 responses received. The average score from the surveys was 47.8 out of 55. The lowest score received from a survey was 36, while the highest was 55, which was achieved on 2 responses.

The overall responses are graded as either:

- Excellent (scores 46 to 55)
- Good (scores 38 to 46)
- Fair (scores 29 to 37)
- Poor (scores 20 to 28)
- Very poor (scores 11 to 19)

Overall 12 of 24 responses categorised the audit service they received as excellent, another 11 response categorised the audit as good and 1 audit was categorised as fair. There were no responses that fell into the poor or very poor categories.

OTHER OPTIONS CONSIDERED

5.1 Not applicable.

This report has been approved by the following officers:

Legal officer	n/a
Financial officer	n/a
Human Resources officer	n/a
Service Director(s)	n/a
Other(s)	Richard Boneham, Head of Governance and Assurance

For more information contact:	Adrian Manifold, Audit Manager, 01332 643281 adrian.manifold@derby.gov.uk
Background papers:	None
List of appendices:	Appendix 1 - Implications Appendix 2 - Internal Audit Output Summary Appendix 3 - Opinions & Recommendations during the period Appendix 4 - Summary of audits finalised during the period Appendix 5 - Customer Satisfaction Survey scores

IMPLICATIONS

Financial and Value for Money

- 1.1 None directly arising.

Legal

- 2.1 Under the Accounts and Audit (England) Regulations 2011, the Council is required to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

Personnel

- 3.1 None directly arising

Equalities Impact

- 4.1 None directly arising.

Health and Safety

- 5.1 None directly arising.

Environmental Sustainability

- 6.1 None directly arising.

Asset Management

- 7.1 None directly arising.

Risk Management

- 8.1 None directly arising.

Corporate objectives and priorities for change

- 9.1 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 2011

August		Chief Executives	Children & Young People	Resources	Neighbour-hoods	Adults, Health & Housing	Derby Homes	Fire & Rescue	Amber Valley	South Derbyshire	Other External Bodies	Total
	%											
Not Allocated		1	2	12	5	1	1	4	1	9		36
Allocated but not yet started	0%-10%		33	5			2	1	3	3		47
Started - Fieldwork commenced	0%-80%	2	1	9	4	3	3	3	2	4		31
Awaiting Review - Fieldwork complete and file submitted for review	80%											
Reviewed but draft report not yet issued	90%			1		1						2
Draft Report issued but final report not issued	95%			4			1		1			6
Final Report issued	100%		1	8	5		6	1	2	3		26
Complete Job finalised but no formal report with recommendations issued	100%		6	1	2	1						10
	Total	3	43	40	16	6	13	9	9	19		158
Removed from Plan	0%			1		1						2

Opinions & Recommendations during the Period

Job Name	Overall Control Assurance Rating	Recommendation Risk Ratings			
		Critical Risk	Significant Risk	Moderate Risk	Low Risk
Chief Executive's Office					
Children & Young People					
External Placements	Reasonable	0	0	3	7
Resources					
Citrix Environment Security Assessment	N/A	0	0	0	0
Fixed Assets 2010-11	Reasonable	0	1	2	0
Co-location Fund Grant 2010-11	Comprehensive	0	0	1	0
Grant Certification Issues	Reasonable	0	0	1	0
Neighbourhoods					
Carbon Reduction Commitment - Certification 2009-10	Comprehensive	0	0	0	2
6C Derby Housing Market Area Growth Fund	Comprehensive	0	0	0	1
Investigation - Trade Refuse	N/A	0	0	0	0
Bereavement Services	Comprehensive	0	0	0	6
Adults, Health & Housing					
Investigation - Arboretum House Petty Cash	Reasonable	0	0	0	0
Total Recommendations Made		0	1	6	16

Table does not include 5 audit finalised in respect of Internal Audit's external contracts or the 1 audit / assessment undertaken in respect of Schools.

Overall Control Assurance Ratings

None	We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
Limited	We are able to offer limited assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
Comprehensive	We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

Summary of Audits Finalised During the Period

Introduction

The summaries below outline the number of control issues identified in final audit reports issued in the period. 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.

Children & Young People

External Placements

Overall Control Assurance Rating: Reasonable

This audit focused on assessing the adequacy of the Councils systems in place for authorising, processing and monitoring external placements.

From the 15 key controls evaluated in this audit review, 6 were considered to provide adequate control and 9 contained weaknesses. Ten control issues were raised within this report and all were accepted. Positive action had already been taken to address 9 of the recommendations made. Positive action in respect of the remaining 1 was agreed to be completed by the end of December 2011.

Resources

Citrix Environment Security Assessment

Overall Control Assurance Rating: N/A

The Citrix Environment Security Assessment was a carried forward job from the 2010/11 Audit Plan. Initially we had made significant progress on this job during meetings with the previous Head of IT, analysing the old Citrix infrastructure and supporting documentation. We have since been informed that it had been decided that the whole Citrix system was being redesigned and rebuilt to support new ways of working, and any recommendations found on the old Citrix infrastructure would have a limited lifespan and may not even be applicable based on the new design. Accordingly, this audit has been cancelled until the new system has been built.

We have agreed with ICT Management that some of the issues identified in our initial review will be incorporated into the scope of our Workstation/ User Security Policy audit which is already underway.

Fixed Assets 2010-11

Overall Control Assurance Rating: Reasonable

This audit focused on controls over fixed asset movements within the 2010/11 financial year in relation to acquisitions, transfers and disposals. It also sought to evaluate controls which ensure assets are included in a revaluation rolling programme and that assets are physically verified to confirm their existence.

From the 16 key controls evaluated in this audit review, 8 were considered to provide adequate control and only 8 contained weaknesses. Three control issues were raised within this report and all were accepted with positive action being agreed to address 2 recommendations by the end of January 2012 and the remaining 1 by the end of March 2012.

Co-location Fund Grant 2010-11

Overall Control Assurance Rating: Comprehensive

As part of the 2010/11 Audit Plan, Internal Audit has reviewed the Co-location Fund Grant which has been used to purchase and develop three properties that provide accommodation and a training property for care leavers. In 2009 funding of £324,875 was secured from the Department for Children, Schools and Families (DCSF) which was drawn from Partnerships for Schools (PfS), a company established by DCSF. The City Council contributed a £100,000 in match funding.

We were required, as part of the grant funding conditions in this and the previous financial year, to provide assurance to the Section 151 Officer that the grant conditions have been fully complied with. One key control weakness was identified. This was accepted and positive action was agreed to be undertaken to address our recommendation by 17 October 2011.

Grant Certification Issues

Overall Control Assurance Rating: Reasonable

As part of the 2010/11 Audit Plan, Internal Audit has undertaken a number of grant certification audits where we were required to provide assurances to the Section 151 Officer that grant funding has been spent in accordance with grant conditions and within the required timeframe. As in previous years, this work identified a number of issues where improvements to current practices could be made to prevent similar issues recurring. One key control weakness was identified.

The control issue was accepted and positive action was agreed to be undertaken to address our recommendation by the end of April 2012.

Neighbourhoods

Carbon Reduction Commitment - Certification 2009-10

Overall Control Assurance Rating: Comprehensive

As part of the 2010/11 Audit Plan, Internal Audit has reviewed the progress made by the Council's Energy Team with their submission of the Council's first Carbon Reduction Commitment (CRC) CO² emissions data to the Environment Agency.

A submission was made by the Energy Team at the end of July 2011, in the form of a Footprint Report and an Annual Report. We examined the data supporting the figures reported in the submission and the system used for collecting and recording the data. We were satisfied that the reported figures were adequately supported by the underlying data.

Two key control weaknesses were identified. Both were accepted and positive action was agreed to be completed by the end of January 2012.

6C Derby Housing Market Area (HMA) Growth Fund

Overall Control Assurance Rating: Comprehensive

As part of the 2010/11 Audit Plan, Internal Audit has reviewed the Derby HMA Growth Fund Grant element from the wider 6Cs partnership allocation. The 6Cs partnership is comprised 3 HMAs drawn from the cities and counties of Derby, Nottingham and Leicester. The funding is used to improve the infrastructure, public realm, affordable housing and open spaces. Funding to the Derby HMA of almost £8m over 3 years was secured from the Department for Communities and Local Government (DCLG) via the 6Cs partnership. We were required to examine the expenditure incurred for projects across the three Councils under the Derby HMA.

One key control weakness was identified. This was accepted and positive action was agreed to be undertaken to address our recommendation by the end of November 2011.

Investigation - Trade Refuse

Overall Control Assurance Rating: N/A

We received information which suggested that an unauthorised trade refuse collection was taking place. No evidence was found to support this and in the absence of more tangible information, our enquiries were closed.

Bereavement Services

Overall Control Assurance Rating: Comprehensive

This audit focused on assessing the adequacy of the Council's systems in place for managing the risks associated with the authorisation, proper record management and accounting for bereavement services.

From the 33 key controls evaluated in this audit review, 27 were considered to provide adequate control and only 6 contained weaknesses. All of the control issues raised within this report were accepted and positive action in respect of 1 recommendation was to be completed by the end of December 2011 and the remaining 5 by the end of March 2012.

Adults, Health & Housing

Investigation - Arboretum House Petty Cash

Overall Control Assurance Rating: Reasonable

We were asked to review the paperwork for the petty cash account when it was reported that an employee had cashed a cheque from the account and not paid the money into the home's safe. The bank statement was also missing for that period. We confirmed that the money was missing and identified that the employee had included several incorrect figures when compiling the petty cash statement. The employee did arrange for the money to be returned. At the subsequent disciplinary hearing, the employee received a final written warning.

Results of Customer Satisfaction Surveys

		Ave Score
A. AUDIT PLANNING		
1.	Consultation on audit coverage and timing	4.21
2.	Relevance of audit objectives and scope	4.21
B. COMMUNICATION & CONDUCT		
3.	Feedback during the audit	4.33
4.	Helpfulness of the auditor(s)	4.63
5.	Professionalism of the audit team	4.54
6.	Completed in an acceptable timeframe	4.46
C. QUALITY OF THE AUDIT REPORT		
7.	Clarity and presentation of the report	4.38
8.	Accuracy of findings	4.25
9.	Soundness and objectiveness of audit's conclusions	4.25
10.	Value of agreed actions to improve control environment	4.21
D. GENERAL		
11.	Overall satisfaction with the audit service	4.38

Scoring Guide: 1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent