



INTERNAL AUDIT – INTERIM REPORT ON PROGRESS IN 2004/5

RECOMMENDATION

- 1.1 To note the activity and performance of internal audit in 2004/5 as at 14 December 2004.
- 1.2 To agree to waive contract procedure rules to enable audit agency resources to be brought in to secure delivery of the 2004/5 audit plan, as set out in Appendix 1.
- 1.3 To refer the report to Scrutiny Management Commission for information.

SUPPORTING INFORMATION

- 2.1 The 2004/5 Annual Internal Audit Plan was presented to Council Cabinet on 27 April 2004. It was also referred to Scrutiny Management Commission for comment. The covering report stated that it was intended that two further reports on Internal Audit would be brought before Cabinet this year – a report upon the outcome of 2003/4 audit review work (Cabinet on 20 July 2004) , and this interim report setting out progress against the 2004/5 audit programme.
- 2.2 The Annual Internal Audit Plan is a risk based plan designed to review the control environment of the Council, including all its operations, resources, services and responsibilities in relation to other bodies, and enable the Head of Audit and Governance to deliver an audit opinion. To meet this requirement for 2004/5, it was planned to cover a total of 202 audit reviews.
- 2.3 The internal audit plan is kept under review throughout the year to identify any amendments needed to reflect changing priorities and emerging risks. It is a flexible document which contains an element of contingency to accommodate assignments which could not have been reasonably foreseen at the Planning stage. Such assignments include special investigations into suspected or detected fraud, corruption or impropriety, internal control failures as well as requests for internal audit input into reviewing new systems. Emerging issues which have risk and control implications also require assessing by internal audit, and may require audit review in the current year. Any material changes to the Plan are reflected in this report (see para 2.8).
- 2.4 The Plan is ultimately determined by the available input of days. Therefore instances such as significant levels of vacancies and overruns on time budgetted for each audit assignment will effect the level of output. In such cases the Plan has to be reviewed and adjustments made, based on the risk ranking of audits. If audits need

to be dropped from the planned work, then this is done based on the associated risk of the audit area. High risk audits are the main priority.

- 2.5 Appendix 2 summarises the output of internal audit in 2004/5 for the period 1 April to 14 December 2004. At the end of this period, 58 audits had been completed, with a further 23 where the draft audit report had been issued, and a response from the relevant Manager was awaited. There are 50 audits where the audit review was still in progress and will be completed in the final 4 months of the year. There are 35 reviews due to be started in the period from 15 December to 31 March 2005. This is measured against the latest revised audit plan which has deleted some lower risk areas planned for review.
- 2.6 Internal Audit reports prioritise recommendations into 3 distinct categories of perceived weakness, fundamental, significant and merits attention. A fundamental weakness is one that requires priority attention because the associated risk to the Council would be highly likely to occur and it would also have a high impact if it were to.
- 2.7 Appendix 3 provides full details of the number of recommendations in each category by audit for all final reports issued to 14 December 2004. The table below shows the difference between the number of recommendations made by Internal Audit and those accepted by Management for all completed audits.

	Fundamental	Significant	Merits Attention
Recommendations Made	0	126	88
Recommendations Accepted	0	117	85

There have been no fundamental weaknesses found in audit reviews in the period covered by this report.

- 2.8 There has been a 93% acceptance rate for audit's recommendations. The difference between the number of recommendations made in the draft report and those accepted for inclusion in the final report occurs where
- Management decides that they are prepared to bear the risk identified due to insufficient resources to meet the control recommended i.e. the introduction of separation of duties in a system requires additional resources
 - Management believes that it has compensating controls in place which mitigate the need for a new control
 - Management are able to demonstrate limitations in the system used that prevent the suggested control from being addressed.

The acceptance rate is affected where audit reports are issued in final following a non-response from the auditee. This was the case with the "Going Places" audit, where a response was not received from either JET or the scheme manager. As a result the report was issued so that the Children's Fund could consider the findings at a Board meeting. The audit was categorised as "recommendations not accepted".

- 2.9 Securing responses to draft audit reports is necessary to verify that the information contained in the report is accurate, as well as to obtain feedback from managers on

the recommendations made by Internal Audit. This can sometimes be a drawn out process. Delays can be caused for a variety of reasons. To avoid the lengthy delays in issuing final reports, Internal Audit has implemented a procedure whereby any draft report not responded to within 6 weeks of the date of issue, will be sent to the appropriate Chief Officer to secure a response. This should reduce the number of instances of audit reviews still being at draft report stage months after they were issued.

- 2.10 A major piece of audit work in 2004/5 has been the internal investigation into the events surrounding the window replacement contract at Silverhill Primary School. This investigation concentrated on those processes surrounding the awarding of the work to the contractor by the school, the professional advice given to the school, the funding of the scheme, and the role of the Council. This led to suspension by the Council of the Governing Body's right to a delegated budget, amongst other actions.
- 2.11 The audit reviews of individual schools during the period 1 April to 14 December 2004 highlighted a number of significant weaknesses. These arose in the main through weaknesses surrounding Governor's responsibilities and where internal financial procedures were not of the required standard. It is clear from this that there is the need for further guidance and training to be provided to schools. Internal Audit works closely with the Education Service and schools in promoting improved controls within schools, where the responsibilities lie under the legal requirements of delegated budgets.
- 2.12 In the report to Cabinet on 20 July 2004 it was stated that future reports to Cabinet would outline the impact on the individual control system in operation of an exceptional number of significant weaknesses in a particular system, where these appear in combination to fundamentally compromise the internal control environment. In 2004/5, apart from school audits, Internal Audit has issued three reports following investigation reviews that have resulted in a high number of significant weaknesses. Internal Audit has assessed the impact of the high level of significant weaknesses in these areas, and concluded that in each of these cases, the internal control system has not been compromised.
- 2.13 From the 2004/5 audit reviews completed to date, there is no reason to question the adequacy of the systems of internal control operating within the Council. However, a final assessment will be made when the results of the 2004/5 audit plan are reported to Cabinet in 2005.

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Background papers:	Internal Audit Annual Plan 2004/5
List of appendices:	Appendix 1 – Implications Appendix 2 – Internal Audit output for 2004/5 (1 Apr – 14 Dec) - Summary Appendix 3 – Recommendations made in final audit reports issued in 2004/5 (1 Apr – 14 Dec) – By Audit

IMPLICATIONS

Financial

1. None arising directly.

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

- 3.1 The level of vacancies in the first half of 2004/5 was higher than anticipated. Consequently, in order to meet the Audit Plan and achieve the CPA target of 90% completion, temporary audit resources are being brought in to provide the Section with additional audit days on the key financial systems at a cost of £28,000. This has been achieved through direct negotiation with a specialist supplier of audit staff, Bentley Jennison, and will be funded within the existing Directorate budget.
- 3.2 The Section has recently undergone a re-structuring that supports a wider, flexible approach to internal audit, but which also addressed several issues within the team based structure. The new structure is operates on a pool based approach. This is designed to provide more flexibility in terms of meeting workload demands as pressures will not be confined within teams. The pool based approach addresses issues such a lack of integration between the teams and by working to one overall audit plan will provide ownership of the plan to all audit staff and enable them to “see the bigger picture”. The effect of this new working will be seen in the 2005/6 Audit Plan.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. Internal Audit contributes through its review work on the major corporate risks to the Council achieving corporate objectives and priorities. This is achieved by the audit of key systems and corporate governance issues and the associated risks. The work of Internal Audit is also relevant to the priority of ‘value for money’ .

Internal Audit Output - 1 April to 14 December 2004

Progress in Number of Audits											
Departments	Original Plan Jobs	Revised Plan Jobs	Increase / Decrease in Plan Jobs	Jobs Started	Jobs in Progress	Fieldwork Complete	Draft Reports Issued	Final Reports Issued	Audits Complete (No Report)	Jobs Not Yet Started	
Contract Audit	9	3	-6	3	1	0	1	1	0	0	
Development & Cultural Services	9	11	2	11	1	2	0	5	3	0	
Education	40	28	-12	21	8	1	3	6	3	7	
Finance	37	35	-2	23	2	6	5	3	7	12	
Corporate Governance	12	6	-6	6	1	2	2	0	1	0	
IT Audit	24	23	-1	17	5	1	1	2	8	6	
Commercial Services	8	3	-5	3	2	0	1	0	0	0	
Policy	16	13	-3	13	1	1	7	1	3	0	
Social Services	18	12	-6	10	2	2	1	5	0	2	
Corporate Services	3	2	-1	2	0	0	0	0	2	0	
External Bodies	26	30	4	22	10	2	2	6	2	8	
TOTAL	202	166	-36	131	33	17	23	29	29	35	

Notes to Appendix 2

Increase in the number of Plan Jobs

External Bodies Investigations for Derby Homes and Fire Authority

Decrease in the number of Plan Jobs

Contract Audit Number of audits reduced as time required for Silverhill Investigation

Education Reduction in the number of school audits to meet resource shortfall

Corporate Governance Change in emphasis in approach to governance audits and to reduce duplication with other reviews

Social Services IDeA review and resources switched for investigations within the Department

Commercial Services Lower risk audits – resources switched to higher risk areas within Council

Appendix 3

Recommendations Made and/or Accepted in Final Audit Reports Issued in 2004/5 – By Audit

				Recommendations Made			Recommendations Accepted		
Job Name	Year	Draft Report Date	Final Report Date	Funda- mental	Signif- icant	Merits Attention	Funda- mental	Signif- icant	Merits Attention
<u>Reports issued in Final Development & Cultural Services</u>									
Recycling - Follow-up	2003/04	31-Mar-04	05-May-04	0	2	4	0	2	3
Development Control - Follow-up	2004/05	26-Jul-04	21-Sep-04	0	0	1	0	0	1
Advice - Sinfon Library Petty Cash Float	2004/05	10-May-04	27-Jul-04	0	5	0	0	4	0
Arts Development / Grants - Follow-up	2003/04	22-Mar-04	26-Jul-04	0	1	3	0	1	3
<u>Education Service</u>									
St James CE (Aided) Junior School	2003/04	14-May-04	02-Jul-04	0	6	5	0	6	5
Rosehill Infant School	2004/05	29-Sep-04	21-Oct-04	0	13	11	0	13	11
St Giles Special School	2003/04	27-Feb-04	14-Oct-04	0	10	13	0	10	13
Firs Estate Primary School	2003/04	15-Mar-04	10-May-04	0	7	3	0	7	3
Markeaton Primary School	2003/04	04-Feb-04	06-Apr-04	0	8	9	0	8	8
Meadow Farm Community Primary School	2003/04	31-Mar-04	26-May-04	0	13	4	0	13	4
<u>Finance Directorate</u>									
NNDR - High Level Controls & Mandatory Discretionary Relief	2003/04	13-Oct-04	13-Oct-04	0	1	2	0	1	2
Payroll / Ledger Reconciliations	2003/04	12-Aug-04	15-Sep-04	0	1	3	0	1	3
External Funding - Jobs, Education and Training - Going Places	2003/04	23-Dec-03	13-May-04	0	4	0	0	0	0
<u>IT Audit</u>									
IT Audit Investigations - System Weaknesses	2003/04	12-Feb-04	14-Apr-04	0	1	5	0	1	5
<u>Policy Directorate</u>									
Derby Homes - Client Monitoring	2003/04	25-Mar-04	22-Apr-04	0	5	4	0	5	4
<u>Social Services</u>									
BVPI 58 (People Receiving Statement of Needs) - Follow-up	2003/04	24-Mar-04	06-May-04	0	1	1	0	1	0
Asylum Seekers - Follow-up	2003/04	26-Mar-04	17-Jun-04	0	0	2	0	0	2
Investigation - Missing Monies	2003/04	03-Oct-03	09-Jun-04	0	28	18	0	25	18
Investigation - T&S Claims	2003/04	10-Feb-04	26-Aug-04	0	12	0	0	12	0
Investigation - T&S Claims	2003/04	15-Mar-04	17-May-04	0	8	0	0	7	0
<u>Total Recommendations Made – Final reports</u>				0	126	88	0	117	85
<u>Final Reports issued – no recommendations</u>									
<u>Contract Audit</u>									
Silverhill Primary School	2003/04	15-Sept-04		0	0	0			
<u>Development & Cultural Services</u>									
BVPI 156 (Disabled Access) – Follow Up	2003/04	02-Apr-04		0	0	0			
<u>IT Audit</u>									
Council Tax – IDEA Tests and Samples	2003/04	24-Apr-04		0	0	0			

NB this table does not include **final reports and recommendations made to external bodies such as Derby Homes and the Fire Authority. There were 6 final reports issued to external bodies.**