



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
28 JUNE 2007**

Report of the Head of Audit and
Risk Management

ITEM XX

INTERNAL AUDIT – UPDATE

RECOMMENDATION

- 1.1 To note the activity and performance of Internal Audit in the period 1 April 2007 to 31 May 2007 and to comment accordingly.
- 1.2 To request a report from the Head of Audit and Risk Management to the September 2007 Audit and Accounts Committee meeting on the internal control issues raised during the audit investigation in the Debtors Section.

SUPPORTING INFORMATION

- 2.1 The Internal Audit Plan for 2007/8 is the subject of a separate report to this Committee at its meeting on 6 April 2006. This report summarises the internal audit work completed in the period from 1 April 2007 to 31 May 2007 and seeks a decision by the Committee to determine the audit reports it wishes to review in more detail at the meeting in September 2007.

Summary of internal audit activity – 1 April 2007 to 31 May 2007

- 2.2 Appendix 2 summarises the output of internal audit for the period. During the period 1 April 2007 to 31 May 2007, 11 audits were finalised. This total includes 5 audits for external bodies.
- 2.3 Appendix 3 provides details of internal audit's overall opinion on the adequacy of the level of internal control for each system reviewed 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 Final Reports issued in the period 1 April 2007 to 31 May 2007, by Department.

Department	Good	Satisfactory	Marginal	Unsatisfactory	Unsound	No Opinion	Total
Regeneration & Community							
Children & Young People	3	1					4
Resources & Housing	1					1	2
Environmental Services							
Corporate & Adult Social Services							
Total	4	1				1	6

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.

- 2.4 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. Members may, however, wish to receive a report from the Head of Audit and Risk Management on the control issues arising from the investigation in the Debtors Section.
- 2.5 The main areas of internal audit work in the period from 1 April 2007 to 31 May 2007 have been on investigations and on the development of our approach for the assessment of primary schools under the Financial Management Standard in Schools (FMSiS). Table 2 below provides a summary of the audit time spent on the key areas of audit activity during the period:

Table 2: Time spent on key areas of audit work in the period 1 April 2007 to 31 May 2007

Audit Area	Actual Days spent in Period
Investigation - Debt recovery	39
Investigation – Environmental Services	15.25
FMSiS	33.25
TR17 Teachers’ Pension Return	12
National Fraud Initiative	10.5
External Contracts – Investigation work	11.75

- 2.6. Feedback received from the Quality Control Questionnaires issued in 2007/8 will be reported to the September meeting.

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Background papers:

List of appendices:

Appendix 1 - Implications

Appendix 2 - Internal Audit Output Summary 2007/8

Appendix 3 - Opinion and Issues/Recommendations Made and/or
Accepted in Audits Finalised during the period 1 April 2007 to
31 May 2007

Appendix 4 – Main issues arising from audits completed during the period
1 April 2007 to 31 May 2007

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 priorities

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

		%	Regeneration & Community	Children & Young People	Resources	Environmental Services	Corporate & Adult Services	External Bodies	Total
NA =	Not Allocated		1	73	21	3		13	111
A =	Allocated but not yet started	0%-10%	1	22	2	1	2		28
S =	Started - Fieldwork commenced	0%-80%	2	2	9	3	3	3	22
AR =	Awaiting Review - Fieldwork complete file submitted for review	80%	5	7	4	4	4		24
R =	Reviewed but draft report not yet issued	90%	1	1	1				3
DR =	Draft Report issued but final report not issued	95%	1	4	1		1	1	8
FR =	Final Report issued	100%		4	2			5	11
C =	Complete Job finalised but no formal report with recommendations issued	100%							
Total			11	113	40	11	10	22	207
X =	Removed from Plan	0%			2		1		3

Internal Audit Output

Opinion and Issues/Recommendations Made and/or Accepted in Audits Finalised during the period 1 April 2007 to 31 May 2007

Job Name	Overall control rating	Issues Raised / Recommendations Made			Issues Accepted		
		Funda-mental	Signif-icant	Merits Attention	Funda-mental	Signif-icant	Merits Attention
Children and Young People							
Chellaston Infant School	Good	0	1	12	0	1	12
Lawn Primary School	Good	0	1	13	0	1	13
St Andrews Special School	Good	0	1	13	0	1	13
St Giles Special School	Satisfactory	0	2	20	0	2	20
Resources							
Revenues – Bailiff Service	Good	0	0	5	0	0	5
Investigation – Debt Recovery	N/A	0	0	0	0	0	0
<u>Total Recommendations Made – Final reports</u>		0	5	63	0	5	63

This Appendix does not include the 5 audits finalised in respect of Internal Audit's external contracts.

Summary of Audits Finalised during the period 1 April 2007 to 31 May 2007

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 and Young People

These school audits were undertaken as part of the 2006/07 cycle of school audits. The purpose of the audit was to provide assurance that the school's internal controls are adequate and being operated correctly. It also reviewed the current extent of compliance with internal controls relevant to the achievement of the DfES Financial Management Standard in Schools, which will be the subject of further assessment in 2007/8.

Chellaston Infant School

Control rating: Good

The main issue was considered to be that the school's delegated financial limits are currently restricted to those for placing orders, approving invoices and virements. Delegated financial limits have not been determined for other types of financial transaction, for example, delegated limits for authorising inventory disposals.

Lawn Primary School

Control rating: Good

The main issue was considered to be that the school's financial delegations are restricted to delegated limits for approving expenditure.

St Andrews Special School

Control rating: Good

The main issue was considered to be that the school's delegated financial limits are currently restricted to those for placing orders. Delegated financial limits have not been determined for other types of financial transaction, for example, delegated limits for authorising invoices, virements, journals, bad debt write-offs, and inventory disposals

St Giles Special School

Control rating: Satisfactory

The main issues were considered to be that:

- The school has not established terms of reference for all its Committees and those of the full Governing Body.
- The school does not have in place a comprehensive scheme of delegation clearly defining financial limits of authority and signatory levels. The school's delegated financial limits are currently restricted to those for placing orders and approving virements.

Resources

Revenues – Bailiff Service

Control rating : Good

This audit focused on payments received in 2006/07 from the bailiffs' service provided by Bristow & Sutor. The records were analysed to identify the timeliness of income reimbursed to the Council. In addition the accounting arrangements for the Council's monies retained by Bristow & Sutor were reviewed to ensure they were appropriate.

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

- The Council does not receive any information regarding the bailiffs' success at clearing unidentified payments held in their income suspense account.
- Bristow & Sutor are delaying payments over to the Council in respect of non-cash collections and these arrangements, although not necessarily unreasonable, are not covered in the contractual agreement between the Council and the bailiffs.
- Each week Bristow & Sutor post the Council an accounts sheet and a cheque for the collections they have made. This process takes on average 10 ten days from the end of the collection week to the day the payment is in the Council's account.
- Bristow & Sutor deduct fees and charges directly from payments to the Council which is in breach of the contract with the Council. However, for Bristow & Sutor to submit itemised invoices to the Council for fees and charges an additional administrative process would be necessary.
- The bailiffs' computerised financial records, which allows the Council online access to each case file, do not appear to be updated within the 24 hour period specified in the contract.

All 5 of the control issues raised within this report have been accepted and positive action has been agreed to be taken to address all issues by the time the next bailiffs' contract is entered into this Autumn.

Investigation – Debt Recovery

At a Fairness at Work hearing, allegations were made to the Head of Audit and Risk Management about the conduct of the Debt Recovery Manager in the Debtors Section of the Resources Department. It was alleged that the officer was writing off invoices or using credit notes to remove the debt of some of his "associates".

An audit investigation was carried out and this revealed the allegations were correct and also uncovered a number of other issues including the following control weaknesses:

- Inadequate separation of duties in the Debtors Section in respect of cash collection and full systems access
- Ineffective controls over the issue of Council receipt books

- A lack of control over the authorisation of write-offs and the reconciliation of write-offs
- An absence of system and procedural controls over the raising of credit notes
- A lack of appropriate management of credit balances in the debtors system
- The failure to undertake routine management checks due to the pressure of implementing a new financial management system
- Inadequate record keeping to support transactions

The officer was dismissed in May 2007 following a disciplinary hearing. The Assistant Director, Financial Services is currently working to improve the controls associated with Debt recovery.