CMAP

central midlands audit partnership

Derby City Council –
Internal Audit Progress Report
(Covering the period 1st March 2013 to 31st May 2013)

Audit & Accounts Committee: 26th June 2013

Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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C M
A P central midlands audit partnership
Providing Excellent Audit Services in the Public Sector

Derby City Council – Internal Audit Progress Report

1 Summary

Role of Internal Audit

The Internal Audit Service for Derby City Council is now provided by the Central Midlands Audit Partnership (CMAP). The Partnership operates in accordance with standards of best practice applicable to Internal Audit (in particular, the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006). CMAP also adheres to the Internal Audit Terms of Reference.

The role of internal audit is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

Recommendation Ranking

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

Control Assurance Definitions

Summaries of all audit reports are to be reported to Audit & 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 & Accounts Committee in Audit's progress reports.

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which these recommendations can be addressed. These matters are still for management to determine.

2 Audit Coverage

Progress on Audit Assignments

The following audit assignments are progressing at the moment.

In Progress at year end - 2012-13 Audit Plan Assignments B/Fwd	Type of Audit	Current Status	% Complete
Capital Works at School	Investigation	Final Report	100%
Payroll 2012-13	Key Financial System	Final Report	100%
Fixed Assets 2012-13	Key Financial System	Final Report	100%
Treasury Management 2012-13	Key Financial System	In Progress	75%
Main Accounting System 2012-13	Key Financial System	Reviewed	90%
Contracts Register	Systems/Risk Audit	In Progress	65%
Information Governance	IT Audit	In Progress	75%
Creditors 2012-13	Key Financial System	Final Report	100%
Debtors 2012-13	Key Financial System	In Progress	75%
NNDR 2012-13	Key Financial System	Draft Report	95%
Cashiers 2012-13	Key Financial System	In Progress	70%
Housing & Council Tax Benefits 2012-13	Key Financial System	In Progress	75%
Oracle EBS R12 Security Assessment	IT Audit	In Progress	75%
IT Application - Academy	IT Audit	In Progress	40%

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IT Transformation Programme	IT Audit	Draft Report	95%
VOIP Security Assessment	IT Audit	Draft Report	95%
Workstation Security & Management	IT Audit	Draft Report	95%
Media Sanitization Compliance	IT Audit	Draft Report	95%
PI Missed Bins	Governance Review	Final Report	100%
Highways Maintenance Contract	Procurement/Contract Audit	Completed	100%
PI Temporary Accommodation	Governance Review	Final Report	100%
Murray Park Community School SFVS	Schools	Final Report	100%

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2 Audit Coverage (Cont.)

Progress on Audit Assignments (Cont.)

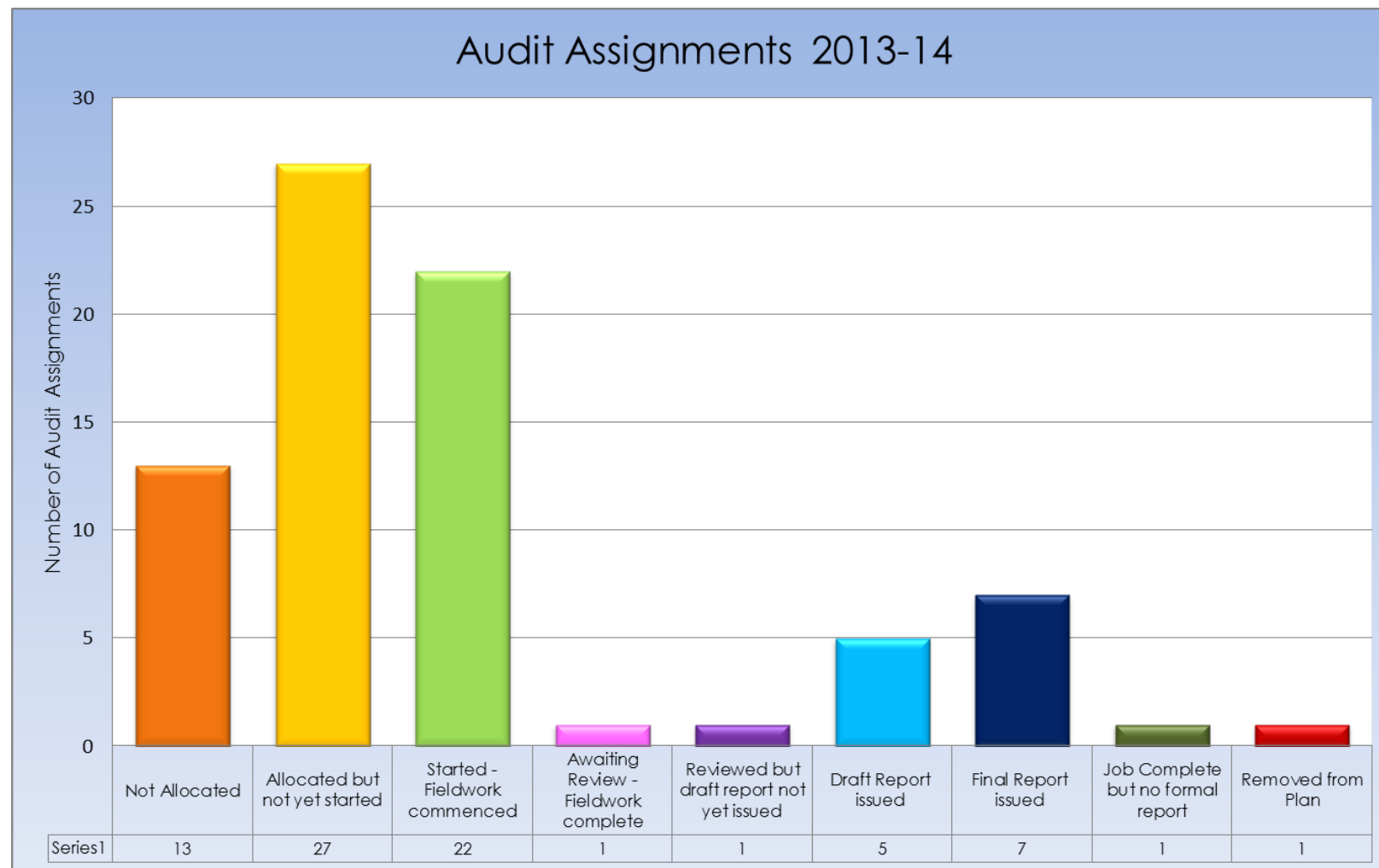| 2013-14 Audit Plan Assignments	Type of Audit	Current Status	% Complete
PI Self Assessment 2013-14	Governance Review	In Progress	5%
Commissioning	Systems/Risk Audit	Allocated	0%
Child Protection Training	Investigation	Awaiting Review	80%
Teachers' Pension Return TR17 2012-13	Key Financial System	In Progress	65%
Risk Management 2013-14	Governance Review	In Progress	15%
Data Matching 2013-14	Governance Review	Allocated	0%
National Fraud Initiative 2013-14	Governance Review	In Progress	45%
Internal Groups 2013-14	Advice/Emerging Issues	In Progress	25%
Housing & Council Tax Benefits 2013-14	Key Financial System	Allocated	5%
Virtualisation Management	IT Audit	In Progress	25%
6C Derby Housing Market Area Growth Fund	Key Financial System	In Progress	65%
Multi-Sports Arena Contract	Procurement/Contract Audit	In Progress	15%
Markets	Systems/Risk Audit	In Progress	25%
Trading Standards	Systems/Risk Audit	In Progress	70%
Nursing Care	Systems/Risk Audit	In Progress	10%
Public Health	Systems/Risk Audit	In Progress	60%
Self-Assessing Schools 2013-14	Schools	In Progress	25%
25 Schools SFVS	Schools	Allocated	Various

Another 21 planned assignments have yet to commence.

2 Audit Coverage (Cont.)

Progress on Audit Assignments Chart

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Audit Assignments 2013-14

Series1	Not Allocated	Allocated but not yet started	Started - Fieldwork commenced	Awaiting Review - Fieldwork complete	Reviewed but draft report not yet issued	Draft Report issued	Final Report issued	Job Complete but no formal report	Removed from Plan
	13	27	22	1	1	5	7	1	1

2 Audit Coverage (Cont.)

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Further Details of Completed Audit Assignments

Introduction

Between 1st March 2013 and 31st May 2013, Internal Audit has completed the following 13 audit assignments for Derby City Council as well as completing 7 School's Financial Value Standard reviews:

- One Derby One Council - Transformation Process 2012-13.
- Capital Works at School.
- Anti-Fraud & Corruption Work 2012-13 (3 Jobs).
- Accounts Payable (Creditors) 2012-13.
- Fixed Assets 2012-13.
- Council Tax 2012-13.
- Payroll 2012-13.
- Highways Maintenance Contract.
- Performance Indicator – Missed Bins.
- Domiciliary Care.
- Performance Indicator – Temporary Accommodation.

As a general policy, all audits leading to a rating of "Limited" or "None" will be brought to the Committee's specific attention. In the period, there haven't been any audits which have rated the overall control in the areas/services under review as Limited or None.

The following summarises the internal audit work completed in the period from 1st March 2013 and 31st May 2013 and seeks to highlight issues which Committee may wish to review in more detail at the next meeting.

Chief Executive's Office

One Derby One Council - Transformation Process 2012-13

During 2012/13 Internal Audit activity within the One Derby One Council project has been concentrated on the preparations for the return to the Council House. As a result the team has been involved in giving advice relating to security for:

- The storage of items in the Council House Basement.
- The location of the payment kiosks in the Council House and access to these machines for maintenance purposes.
- Payment streams being brought into the Council House for the first time under the payments strategy.
- The secure handling of valuables found during Public Health Funeral property inspections.

Audit has also been involved in the development of the referencing mechanism and audit trail of the EDRMS system. Additionally the team has advised on the development of new procedures for the receipt, storage and return of non-cash valuables held by the Council on behalf of vulnerable clients. Due to the high profile and associated risk of fraud, the team has also been closely involved in the development of new process flows and redesigned application process for Blue Badges.

Children & Young People

Capital Works at School

We sought to establish whether, in respect of certain capital works, there was any evidence of non-compliance with the Internal Rules or failure to maintain adequate records, the Governing Body being misled, additional works and variations not being appropriately approved and conflicts of interest not being declared. We concluded that there was sufficient evidence of wrongdoing to warrant further action by management.

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2 Audit Coverage (Cont.)

Resources

Anti-Fraud & Corruption Work 2012-13

At the start of the year, work was completed on the NFI matches produced from the data submissions made in October 2010 and Autumn 2011. The final total for the 2010-11 exercise showed 3,474 matches being investigated, with 19 frauds being found (5 relating to Housing Benefit and 14 to Council Tax single occupier discount). These frauds, together with amendments to accounts identified during the exercise, clawed back a total of £101,168.48.

The cycle of NFI data submissions and matches continued, data was again submitted in October 2012, producing 10,086 matches (a reduction of nearly 18% on the previous cycle). These matches include a variety of housing benefit based matches and other reports related to payroll, creditors, housing, concessionary travel, residential care homes and blue badges. By the end of March, 340 matches had been checked and a further 87 were under investigation. This work is due to continue during 2013/14. Internal Data matching continued; 1,659 matches were examined. From these, £13,330.38 was identified for recovery, with other outstanding queries from previous year's work recovering a further £1,374.67.

Accounts Payable (Creditors) 2012-13

This audit focused on reviewing the controls in place in relation to invoice approval, processing of payments, setting up new suppliers and amendments to supplier data with a view to providing assurance to management and External Audit that an adequate control environment was in operation. The audit considered the roles of the Accounts Payable section as well as Procurement, Business Systems and Cashiers, where appropriate. From the 35 key controls evaluated in this audit review, 29 were considered to provide adequate control and 6 contained weaknesses. The 5 control weaknesses raised within this report were

action was agreed to be taken to address the remaining 4 recommendations by 30th April 2013.

Fixed Assets 2012-13

This audit focused on reviewing and evaluating the adequacy of the system of controls in place for the management and accounting of the Council's fixed assets. It also sought to review the arrangement between the various sections involved in the maintenance of the Fixed Asset Register. From the 22 key controls evaluated in this audit review, 16 were considered to provide adequate control and 6 contained weaknesses. All 5 of the control issues within this report were accepted and positive action to address 4 issues had been agreed to be taken by 30th April 2013 and the remaining 1 by the 31st May 2013.

Council Tax 2012-13

This audit focused on checking the adequacy of controls in administering the Council Tax property database with Valuation Office listings and sought to ensure liable persons were identified promptly with amendments to liability supported by documentary evidence. From the 23 key controls evaluated in this audit review, 21 were considered to provide adequate control and 2 contained weaknesses. All 3 of the control issues raised within this report were accepted and positive action had already been taken to address 2 issues raised in this report. In respect of the remaining issue, Management decided not to take any mitigating action and has chosen to accept the risk in respect of the following low risk control weakness:

- Corrective action was not being taken to resolve the discrepancies that were identified from the quarterly reconciliation between the Council Tax system and the Valuation Office listings.

Management comments were as follows: No change to current working practices. The discrepancies are known and we have a work around in

accepted and positive action was taken to address 1 of the recommendations by the time of issuing the final report and positive

place that is not timely. It would not be cost effective to spend valuable resource hours doing such a low risk task.

2 Audit Coverage (Cont.)

Payroll 2012-13

This audit focused on ensuring that severance payments, manual calculations, allowances, expenses and salary overpayments have been processed correctly. It also considered the use of the CHAPS system. From the 34 key controls evaluated in this audit review, 26 were considered to provide adequate control and 8 contained weaknesses. All 6 of the control issues raised within this report were accepted and positive action in respect of 1 recommendation had already been taken. The 5 remaining recommendations were to be completed between 30th April 2013 and 31st August 2013.

Neighbourhoods

Highways Maintenance Contract

We undertook an audit of the Highways Maintenance contract and the service being provided to the Council back in 2011/12. Other priorities delayed the completion of this work and as reactive maintenance is now being brought back in-house from August 2013, under a Streetpride branded highways maintenance service, we did not issue a formal audit report on the work already undertaken, but provided management with a summary of the issues that may also be relevant to the new service.

Performance Indicator – Missed Bins

This audit focused on reviewing the key controls within the management system for the production of the performance indicator on missed bins with a view to provide assurance that systems were operating effectively and that the performance had been accurately calculated and reported. From the 18 key controls evaluated in this audit review, 15 were considered to provide adequate control and 3 contained weaknesses.

Adults, Health & Housing

Domiciliary Care

Internal Audit was asked to assist in the investigation of financial transactions that had been undertaken by a Council Home Care worker, on behalf of a service user to support the Council's disciplinary process.

Performance Indicator – Temporary Accommodation

This audit focused on reviewing the key controls within the management system for the production of the performance indicator on temporary accommodation with a view to provide assurance that systems were operating effectively and that the performance had been accurately calculated and reported. From the 17 key controls evaluated in this audit review, 12 were considered to provide adequate control and 5 contained weaknesses. All 4 of the control issues raised within this report were accepted and positive action had already been taken to address 2 issues and the remaining 2 issues were due to be addressed by 31st May 2013.

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The single control issues raised within this report was accepted and positive action was due to be taken by 31st August 2013.

3 Audit Performance
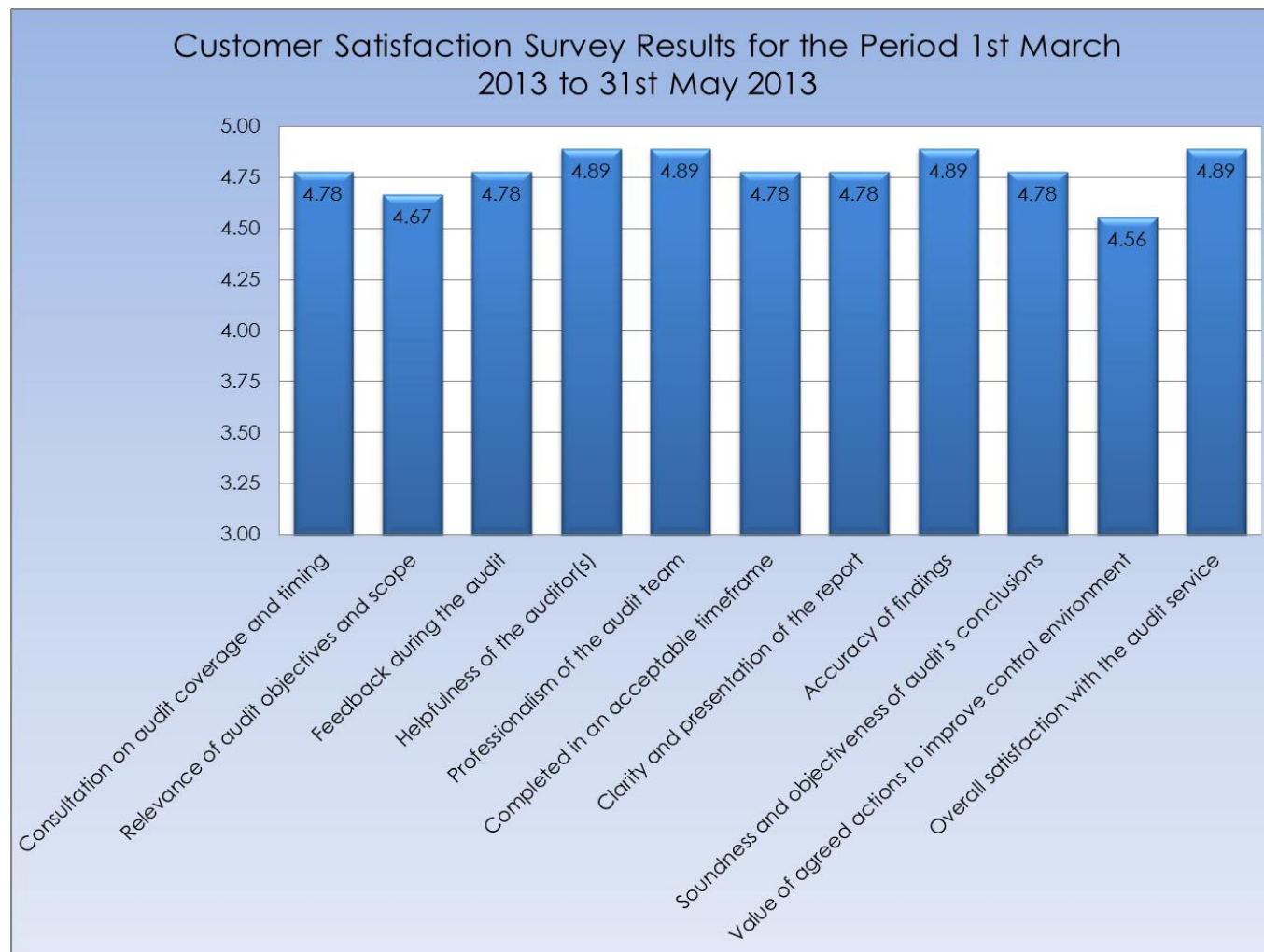
Customer Satisfaction

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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. The table opposite summarises the average score for each category from the 9 responses received between 1st March 2013 and 31st May 2013. The average score from the surveys was 52.7 out of 55. The lowest score received from a survey was 40, while the highest was 55, which was achieved on 4 occasions.

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 8 of 9 responses categorised the audit service they received as excellent; the other response categorised the audit as good. There were no responses that fell into the fair, poor or very poor categories.

Customer Satisfaction Survey Results for the Period 1st March 2013 to 31st May 2013

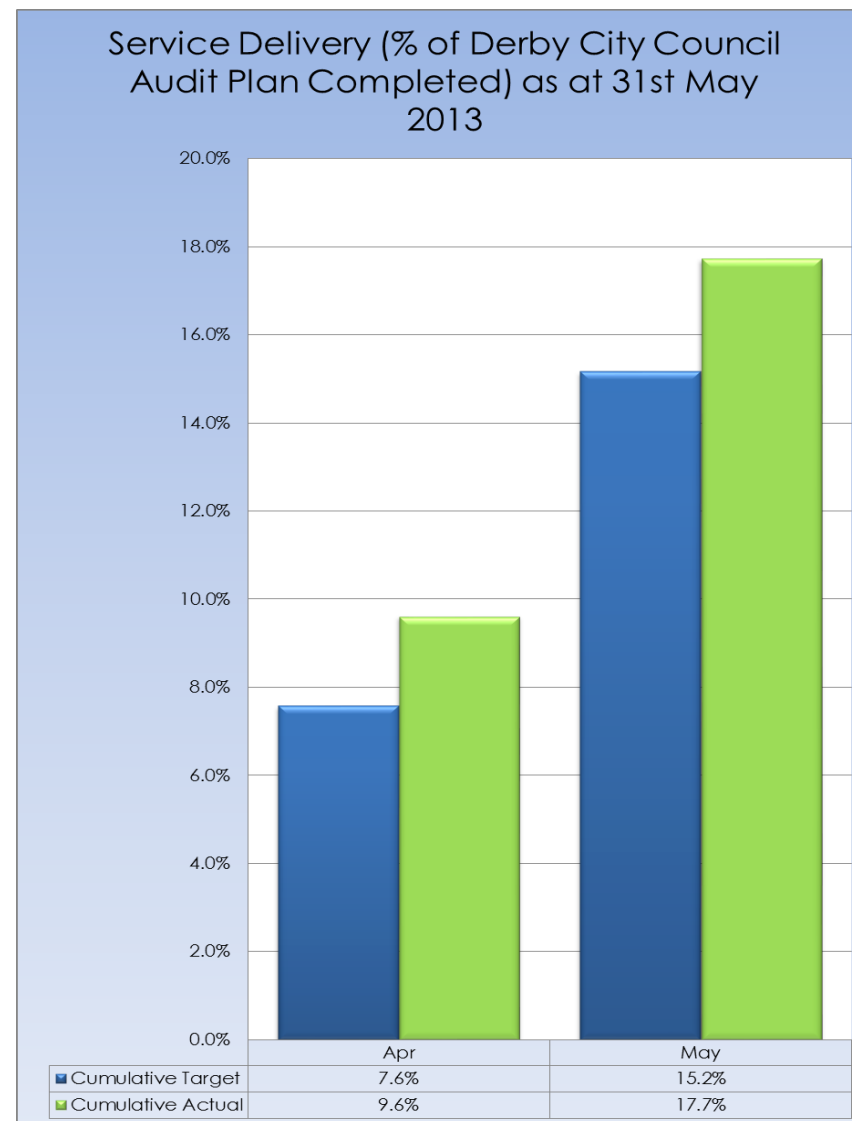| Category	Score
Consultation on audit coverage and timing	4.78
Relevance of audit objectives and scope	4.67
Feedback during the audit	4.78
Helpfulness of the auditor(s)	4.89
Professionalism of the audit team	4.89
Completed in an acceptable timeframe	4.78
Clarity and presentation of the report	4.78
Accuracy of findings	4.89
Soundness and objectiveness of audit's conclusions	4.78
Value of agreed actions to improve control environment	4.56
Overall satisfaction with the audit service	4.89

3 Audit Performance (Cont.)

Derby City Council – Internal Audit Progress Report

Audit Plan Completed

This performance measure is calculated by determining the completeness of each audit assignment included in the revised Annual Audit Plan. Each month each auditor is asked to provide an estimate of their progress on all of their audit assignments.

A fixed percentage is applied to those assignments that have progressed beyond the fieldwork stage. Each audit assignment is weighted in accordance with the number of days allocated.

The target plan completion at the year-end is 91%. The chart across shows our Service Delivery performance after 2 months of the Audit Plan.

Service Delivery (% of Derby City Council Audit Plan Completed) as at 31st May 2013

	Apr	May
Cumulative Target	7.6%	15.2%
Cumulative Actual	9.6%	17.7%

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4 Recommendation Tracking

Follow-up Process

Internal Audit has sent emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We will request an update on each recommendation's implementation status, which will be fed back into the database, along with any revised implementation dates.

Prior to the Audit & Accounts Committee meeting we have provided Chief Officers with details of each of the recommendations made to their departments which have yet to be implemented. This is intended to give them an opportunity to provide Audit with an update position.

Each recommendation made by Internal Audit will be assigned one of the following "Action Status" categories as a result of our attempts to follow-up management's progress in the implementation of agreed actions. The following explanations are provided in respect of each "Action Status" category:

- **Blank (Due)** = Action is due and Audit has been unable to ascertain any progress information from the responsible officer.
- **Blank (Not Due)** = Action is not due yet, so Audit has not followed up.
- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.
- **Being Implemented** = Management is still committed to undertaking the agreed actions, but they have yet to be completed. (This category should result in a revised action date)

Implementation Status

Reports to Committee are intended to provide members with an overview of the current implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations made between 1st December 2010 and 30th November 2012.

We have not included the recommendations made in audit reports issued since 1st December 2012. This is to allow time for recommendations to have reached their agreed implementation dates.

	Implemented	Being implemented	Risk Accepted	Superseded	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	199	30	0	5	9	1	**244**
Moderate Risk	104	16	0	1	0	0	**121**
Significant Risk	19	1	0	0	0	0	**20**
Critical Risk	0	0	0	0	0	0	**0**
	322	**47**	**0**	**6**	**9**	**1**	**385**

The table below shows those recommendations not yet implemented by Dept.

Recommendations Not Yet Implemented	Chief Executives	Children & Young People	Resources	Neighbourhoods	Adults Health & Housing	TOTALS
Risk Accepted	0	0	0	0	0	**0**
Being implemented	0	11	25	7	4	**47**
Due, but unable to obtain progress information	0	1	0	8	0	**9**
	0	**12**	**25**	**15**	**4**	**56**

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. We will provide full details of any recommendations where management has decided not to take any
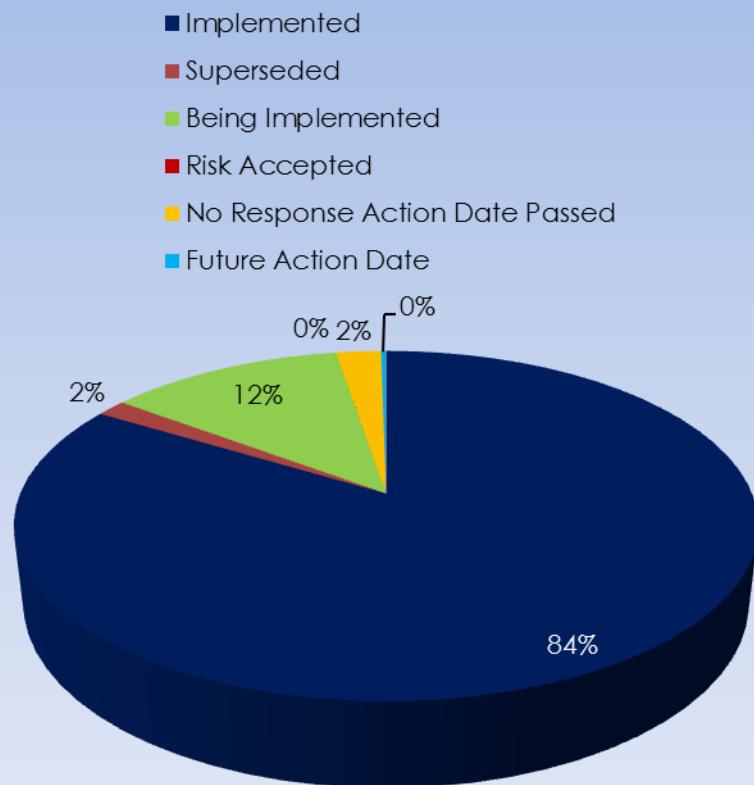
- **Risk Accepted** = Management has decided to accept the risk that Audit has identified and take no mitigating action.

mitigating actions (shown in the 'Risk Accepted' category above).

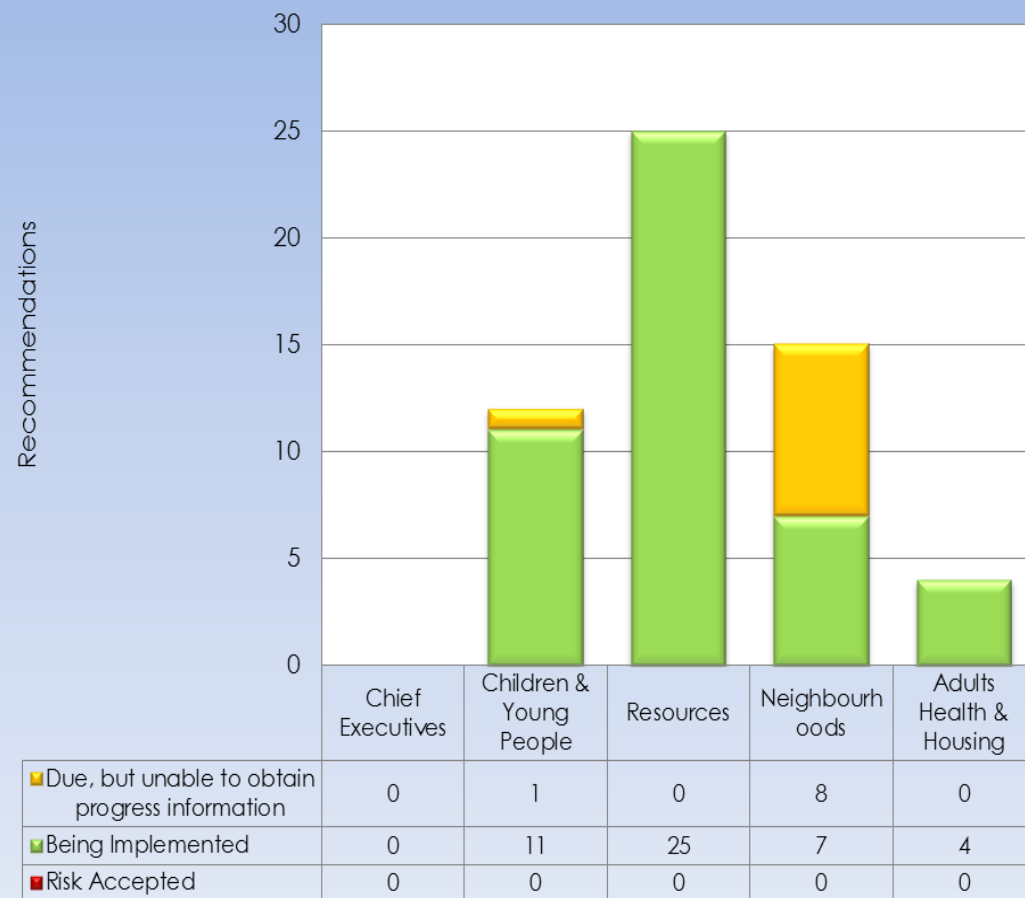## 4 Recommendation Tracking (Cont.)

Implementation Status Charts

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Action Status of Recommendations made between 1st Dec 2010 and 30th Nov 2012

- Implemented
- Superseded
- Being Implemented
- Risk Accepted
- No Response Action Date Passed
- Future Action Date

0% 2% 0%
2% 12%
84%

Recommendations Not Yet Implemented by Department

	Chief Executives	Children & Young People	Resources	Neighbourhoods	Adults Health & Housing
Due, but unable to obtain progress information	0	1	0	8	0
Being Implemented	0	11	25	7	4
Risk Accepted	0	0	0	0	0

4 Recommendation Tracking (Cont.)

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Recommendations Not Yet Implemented

Children & Young People			
Audit Assignment	No. of Recs Still Being Implemented	No. of Recs Where Unable to Obtain a Response	Final Report Date
Fostering & Adoption		1	16-Mar-12
Safeguarding Children	11		06-Jul-12
Total No. of Outstanding Recommendations	**11**	**1**	

Resources			
Audit Assignment	No. of Recs Still Being Implemented	No. of Recs Where Unable to Obtain a Response	Final Report Date
Network Security - Password Audit	3		24-May-11
Debtors 2010-11	1		08-Aug-11
Fixed Assets 2010-11	1		25-Oct-11
Business Support Hub	9		16-Mar-12
Debtors 2011-12	6		27-Jun-12
NNDR 2011-12	2		31-Jul-12
PI Derby Direct - Corporate Complaints	1		13-Aug-12
Creditors 2011-12	1		23-Aug-12
Fixed Assets 2011-12	1		03-Oct-12
Total No. of Outstanding Recommendations	**25**	**0**	

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4 Recommendation Tracking (Cont.)

Recommendations Not Yet Implemented (Cont.)

Neighbourhoods			
Audit Assignment	No. of Recs Still Being Implemented	No. of Recs Where Unable to Obtain a Response	Final Report Date
Chipside - IT System Security	1		31-Jan-11
Health & Safety		1	02-Apr-12
Licensing		1	13-Apr-12
Carbon Reduction Commitment	1	2	05-Sep-12
PI - Increase in attendances at Leisure Facilities		4	27-Sep-12
Home To School Transport	2		17-Oct-12
Civica APP IT Security	3		05-Nov-12
Total No. of Outstanding Recommendations	**7**	**8**	

Adults, Health & Housing			
Audit Assignment	No. of Recs Still Being Implemented	No. of Recs Where Unable to Obtain a Response	Final Report Date
Continuing Care	4		22-Nov-12
Total No. of Outstanding Recommendations	**4**	**0**	