

Report of the Head of Audit and
Risk Management

INTERNAL AUDIT – PROGRESS REPORT

RECOMMENDATION

- 1.1 To note the activity and performance of Internal Audit in the period 1 June 2009 to 31 August 2009 and to comment accordingly.

SUPPORTING INFORMATION

- 2.1 This report summarises the internal audit work completed in the period from 1 June 2009 to 31 August 2009 and seeks a decision by the Committee to determine the audit reports it wishes to review in more detail at the next meeting.

Summary of internal audit activity – 1 June 2009 to 31 August 2009

- 2.2 Appendix 2 summarises the output of internal audit for the period. During the period 1 June 2009 to 31 August 2009, 18 audits were finalised. This total excludes 4 Financial Management Standard in Schools (FMSiS) external assessments and 5 audits for external organisations.
- 2.3 Appendix 3 provides details of internal audit's overall opinion on the adequacy of the level of internal control for each of the 18 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 Appendix 5 covers exempt items which are not for publication.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 between 1 June 2009 and 31 August 2009.

Department	Good	Satis- factory	Marginal	Unsatis- factory	Unsound	No Opinion	Total
Regeneration & Community	2		1				3
Children & Young People	1	1					2
Resources	1	4	1			2	8
Environmental Services						1	1
Corporate & Adult Services	2	1				1	4
Total	6	6	2	0	0	4	18

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

- 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. Appendix 3 contains a brief definition for each category of control rating.
- 2.5 At the end of August the Internal Audit Section has achieved a productivity rate of 80.66%. The target for the year is 73.3%. During the period, a total of 467.75 days has been spent on audit reviews within departments. The breakdown by department is shown in Table 2 below:

Table 2: Analysis of Audit time spent by Department in the period from 1 June 2009 to 31 August 2009

Department	Actual Days
Regeneration and Community	61.00
Children and Young People	80.25
Resources	183.00
Environmental Services	44.50
Corporate and Adult Services	99.00
Total	467.75

- 2.6 The main areas of internal audit work in the period from 1 June 2009 to 31 August 2009 have been on Investigations, general systems based audits, and on the FMSiS. (See Table 3 below.)

Table 3: Analysis of time spent by key areas of audit work in the period from 1 June 2009 to 31 August 2009

Audit Area	Actual Days
Advice to Clients	16.00
Investigations	33.75
Governance Audits	9.75
Follow-up Work	33.50
Certification Work	24.00
Performance Indicator Audits	20.75
Managed Audits	17.50
IT Audits	43.75
Contract/Partnership Audits	44.75
Systems Audits	81.50
Probity Audits	103.25
Schools FMSiS	39.25
Total	467.75

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Background papers: None

List of appendices:
Appendix 1 - Implications
Appendix 2 - Internal Audit Output Summary 1 June to 31 August 2009
Appendix 3 - Opinion & Issues/Recommendations Made and Accepted in
Jobs Finalised during the period 1 June to 31 August 2009
Appendix 4 - Summary of Audit reports issued between 1 June and 31
August 2009
Appendix 5 - Summary of Audit reports issued between 1 June and 31
August 2009 (Not for Publication)

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 – August 2009

August		Regeneration & Community	Children & Young People	Resources	Environmental Services	Corporate & Adult Services	External Bodies	
	%							Total
Not Allocated	0%	2	6	14	2	2	1	27
Allocated but not yet started	0%-10%		12	1	2		5	20
Started - Fieldwork commenced	0%-80%	5	15	16	4	4	5	49
Awaiting Review - Fieldwork complete file submitted for review	80%	1		2				3
Reviewed but draft report not yet issued	90%	1		2				3
Draft Report issued but final report not issued	95%		13	3	3	2	1	22
Final Report issued	100%	3	5	6		2	4	20
Complete Job finalised but no formal report with recommendations issued	100%		1	2	1	2	1	7
	Total	12	52	46	12	12	17	151
Removed from Plan	0%							

Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 June 2009 to 31 August 2009

Job Name	Overall control rating	Issues Raised / Recommendations Made			Issues Accepted		
		Funda-mental	Signif-icant	Merits Attention	Funda-mental	Signif-icant	Merits Attention
Regeneration & Community							
NI 172 - VAT Registered Business Showing Growth	Good	0	0	1	0	0	1
Payments To Artistes	Marginal	0	4	5	0	4	5
Neighbourhood Forums	Good	0	0	10	0	0	10
Children & Young People							
NI 112 Under 18 Conception Rate	Good	0	0	0	0	0	0
Sinfin Community School - 2008/09 Overspend	Satisfactory	0	0	0	0	0	0
Resources							
Oracle E-Business Suite - SQL Results	Satisfactory	0	5	0	0	5	0
Academy Revenues and Benefits System	Satisfactory	0	5	0	0	5	0
Mobile Phone Contracts	Marginal	0	5	0	0	5	0
Treasury Management 2008-9	Good	0	1	4	0	1	4
Direct Debits	Satisfactory	0	2	4	0	2	4
Oracle E-Business Suite 11i Security	Satisfactory	0	3	1	0	3	1
Police Liaison - Cash Advances Case 1	N/A	0	0	0	0	0	0
Police Liaison - Cash Advances Case 2	N/A	0	0	0	0	0	0
Environmental Services							
Police Liaison - Waste Management	N/A	0	0	0	0	0	0
Corporate Services							
Home Care Charges	Satisfactory	0	2	5	0	2	5
Postal Voting Process	Good	0	0	3	0	0	3
Supporting People - Statement of Grant Usage 2008-9	Good	0	0	0	0	0	0
Investigation - Eagle Centre Market	N/A	0	0	0	0	0	0
Total Recommendations Made		0	27	33	0	27	33

Table does not include the 5 audits finalised in respect of Internal Audit's external contracts or the 4 FMSiS external assessments where the primary schools achieved the Standard.

Unsound	means that the risks identified within the audit are major and fundamental improvements are required.
Unsatisfactory	means that the risks identified within the audit are unacceptable and significant changes should be made.
Marginal	means that the risks identified within the audit are either numerous or significant and require improvement.
Satisfactory	means that the risks identified within the audit are minimal or less significant but changes are required.
Good	means that either no risks have been found or the risks identified within the audit are minor and only a small amount of changes would be beneficial.

Summary of Audits Finalised during period 1 June 2009 to 31 August 2009

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.

Regeneration & Community

NI 172 - VAT Registered Business Showing Growth

Overall control rating: Good

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. National Indicator 172 on the "Percentage of small businesses in an area showing employment growth" was included in the sample of performance indicators selected for review during 2009/10.

The following issue was considered to be the key control weakness:

- The performance figures and targets posted on Performance Eye had not been authorised by the designated officer.

The issue was accepted and positive action was agreed to take with immediate effect.

We noted during our review that the performance figures and Technical Advice provided by the department for Business Innovation and Skills (BIS) for this indicator contained errors for Nottingham City Council and Rutland County Council. We have therefore contacted our Performance Management Unit and requested that they seek written clarification from BIS that the results they have posted for Derby City Council are in fact correct.

Neighbourhood Forums

Overall control rating: Good

This audit focused on grant awards made since October/November 2007 when the Neighbourhood Forum scheme started. In addition there were reserves held over from previous years, where grants had been awarded, but the projects had not started.

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

- There was some doubt as to whether the £10,000 award for each Neighbourhood for 2009/10 could be spent on its designated purpose of Highways and Footpaths.
- A maximum amount had not been determined for an award from the Neighbourhood Board budgets. There was no guidance in respect of carrying forward monies not yet awarded into the next financial year. It was not clear whether projects had to be completed within a financial year.

- Payments had been made which had not always been checked by an independent Community Safety Partnership (CSP) officer. Also a signature list of those authorised to approve such payments had not been produced.
- Applications for payment awards were not being date stamped, numbered or recorded when received at the Stronger Communities Unit.
- Neighbourhood Boards were determining their own levels for declaring personal interests and CSP officers were not making any form of declaration.
- Stronger Communities Officers were not monitoring the progress of applications for awards.
- There were funds (£74K) dating back up to five years which remained unspent or unallocated to projects from the previous Area Panels.
- Payment requests did not state which budget was being used which made budget monitoring difficult. Budget reports were not being shared with Neighbourhood Managers.
- Neighbourhood Managers were not required to provide supporting documents to substantiate the commitment totals that they reported.
- Organisations in receipt of funding had not been required to submit any evidence which demonstrated that they have spent their award in accordance with their funding agreement. Neither had any Neighbourhood Board sought to verify that any of the agreed actions or objectives had been undertaken or achieved.

All ten of the control issues raised within this report were accepted and positive action was agreed to be taken to address all 10 recommendations by the end of September 2009.

Children & Young People

NI 112 Under 18 Conception Rate

Overall control rating: Good

The Audit Commission Key Lines of Enquiry (KLOE) for Data Quality require Councils to have in place effective arrangements for the monitoring and review of data quality. Internal Audit reviews the accuracy and completeness of performance information as part of these arrangements. National Indicator 112 on the “Under 18 conception rate” was included in the sample of performance indicators selected for review during 2009/10.

From the 34 key controls evaluated in this audit review, all were considered to provide adequate control and no recommendations were made

Sinfin Community School - 2008/09 Overspend

Overall control rating: Satisfactory

At the request of the Assistant Director Learning – Children and Young People, we undertook an investigation to establish the reasons for the substantial overspend incurred at Sinfin Community School that resulted in it applying for a licensed deficit of £187,740 in 2008/09.

We were satisfied from our initial enquiries the majority of the overspend was accounted for by the increase in employee and premises related costs, but were concerned whether controls in place were working adequately for financial management and reporting and

accountability arrangements. To avoid duplication and make effective use of audit resources, we agreed with the Assistant Director to proceed with the review as part of Financial Management Standard in Schools assessment arranged to be undertaken as part of the 2009/10 audit plan.

Resources

Mobile Phone Contracts

Overall control rating: Marginal

This audit focused on mobile phone contracts set up either with the corporate contractor (Vodafone – 772 phones and 196 SIM cards) or with a second supplier (Orange – 991 lines).

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

- There were differences in the treatment of private usage between services, with monitoring of accounts not being subject to standard controls
- There were no processes in place to ensure that value for money was being achieved through reviewing the terms and tariffs charged by the phone suppliers
- There was no central record of all phones and their allocated holders, so control over these assets was weak
- Different payment methods were in use for different accounts with the same supplier, and two separate suppliers were being used, leading to a reduction in the achievable economies of scale.
- The disparate nature of the information reduces the Council's ability to plan for future developments which is growing in urgency due to New Ways of Working.

All of the control issues raised within this report were accepted and positive action was been agreed to be taken to address all 5 recommendations by October 2009.

Treasury Management

Overall control rating: Good

This audit focused on the prudential indicators and that treasury management decisions are taken in accordance with best practice and in a manner that supports prudence, affordability and sustainability. The audit has also reviewed the controls surrounding the investment and borrowing reconciliations.

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

- Although the Debt Charges Model provided the working papers for the majority of the prudential indicators there were a number of indicators without supporting papers to show how these had been calculated.
- There was no routine monitoring against the prudential indicators being undertaken that showed how ongoing decisions for treasury management may impact on the prudential indicators. There was no standard procedure in place to ensure the trend of borrowing was being appropriately monitored against the operational boundary, the maturity structure of debt and investments undertaken were within the limits agreed.

- A ratio of Financing Costs to Net Revenue Streams had not been determined and it had not been decided what would be an acceptable impact on Council Tax.
- Inconsistencies were identified between the figures reported for Capital expenditure by the Accountancy Section and those reported by Technical Finance.
- The investment and borrowing reconciliations had not always been performed in a timely manner after month end close down and more recent reconciliations had not been signed off by a senior officer.

All 5 of the control issues raised within this report were accepted and positive action was to be completed by the end of July 2009.

Police Liaison - Cash Advances Case 1

Overall control rating: N/A

This job was set up to refer matters of perceived criminality relating to Arun Hussain to the Police and provide evidence where required. The Head of Audit & Risk Management met with officers from Derbyshire Police and provided them with a copy of management's statement of case used at Arun's disciplinary hearing. Arun subsequently appeared in Magistrates Court on 23 June 09 where he was charged with theft and false accounting. He was sentenced to 18 wks suspended for two years, 300 hours community service and he had to pay back the stolen money of £5,121.29 within 7 days. The Council has now received full payment of this amount.

Police Liaison - Cash Advances Case 2

Overall control rating: N/A

This job was set up to refer matters of perceived criminality relating to Graham Igo to Police and provide evidence where required. The Head of Audit & Risk Management met with officers from Derbyshire Police and provided them with a copy of management's statement of case used at Graham's disciplinary hearing. Graham appeared in Magistrates Court on 24 June 2009 charged with theft and false accounting and was sentenced to 6 months suspended for 18 months with 12 months supervision and has to attend an Alcohol treatment course for 6 months. He has to repay the stolen money of £1,696.23 at £10 per fortnight. The Council insurers have made a payment to the Council for the full amount stolen and arrangements have been made to pay this back to the insurers as and when the Council receive the payments from Mr Igo.

Corporate & Adult Services

Postal Voting Process

Overall control rating: Good

This audit focused on the current postal voting processes with detailed testing being undertaken on controls over the May 2008 local elections.

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

- Royal Mail staff have not been instructed to not re-direct postal applications or voting packs during the annual canvas and election period.

- We found that there was no process for verifying authorisation and no independent check of amendments, additions or deletions to the Electoral Register.
- Electoral Services was not obtaining a record or certificate confirming the destruction of the electoral papers.

All 3 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all 3 recommendations by end of July 2009. However, in relation to recommendation 1, Royal Mail has stated that it is not possible for them to refuse to re-direct applications for postal voting and voting packs.

Supporting People - Statement of Grant Usage 2008-9

Overall control rating: Good

The purpose of this audit was to obtain reasonable assurance that the Statement of Grant Usage (SOGU), in all material respects, was fairly stated in accordance with the grant terms and conditions for the period 1 April 2008 to 31 March 2009. The audit concentrated on the examination of the records which supported the SOGU and ensuring that financial controls existed to provide adequate records of expenditure funded and income generated by this grant.

As an improvement suggested after last year's audit, the Supporting People Accountant was performing a reconciliation of the data from the LOGASnet system to the (Oracle) Ledger. This was found to improve the accuracy of the data as it allowed for continuous monitoring. Accounting treatment was queried for one payment accrued for a 2 day period outside the grant dates (30, 31 March). The treatment was confirmed as being 'standard' and as the value was low (£60k) it was not considered to be material. No amendments were made to this year's claim.

We concluded that reasonable assurance could be given to the Corporate Director - Resources in respect of the amended SOGU and an online submission was processed by the Supporting People Accountant.