

Update on External Audit Issues/Recommendations

	<u>Issue</u>	<u>Recommendation</u>	<u>Management Response</u>
	<u>Follow up of 09/10 Interim Audit Recommendations and ISA260 09/10 Recommendations</u>		
	<u>Follow up of 09/10 Interim Audit</u>		
1.	<p>IT - Security Setting</p> <p>We noted the following during our review:</p> <ul style="list-style-type: none"> password complexity - the security policy states that when setting up passwords employees should use a minimum of 10 characters, ideally including a mixture of upper and lower case characters and numbers. However, this has not been enabled on Active Directory and on the Academy system account lockout - Active Directory settings provide for lockout after 20 failed login attempts screensaver password - the security policy states that if the user has a password protected screensaver function, they should use it. This is not activated automatically <p>Without adequate settings for password complexity and account lockout, security is not strong enough to prevent password compromise via brute force attacks. Without timeout facilities, unattended workstations are vulnerable to misuse and unauthorised access.</p>	<p>Password complexity should be more appropriately enabled within the Academy system. This should also be the case for the Active Directory.</p> <p>Whilst Active Directory settings are not yet set to require complex passwords, it is recommended that account lockout should be set to 3-5 attempts, as per best practice, i.e. ISO27001.</p> <p>It is also recommended that officers enable screensaver passwords, after 15 minutes, at Group Policy settings.</p>	<p>Agreed</p> <p>It is not possible to increase the password complexity on Academy. We will however issue users with guidelines on using a mixture of upper and lower case characters and numbers to improve security.</p> <p>We are planning to move to a complex password by 01/10/2010. In the interim we are advising users that when their password expires, that they start to use a complex password immediately so there will be a gradual change to the password complexity. The Network, Internet and Email user policy already instructs users to use a complex password. We will investigate the feasibility of automatically implementing screensaver passwords. We understand that there may be some issues with a Group Policy implementation.</p> <p>Responsible Officer: Mike Thompson Deadline : 1 October 2010</p> <p>Updated Response as at September 2010</p> <p>We planned to implement complex passwords in line with the roll out of Quest, a user driven password reset product. Unfortunately we have had significant technical problems with the roll out of Quest which we have yet to resolve. We will now roll out complex passwords over the next few months as users passwords automatically come up for resetting.</p> <p>New responsible officer: Terry Tinsley Revised target date: 31 December 2010.</p> <p>Updated Response as at November 2010</p> <p>In progress. Revised target date 1 February 2011.</p>

2.	IT - Audit Logs Monitoring There are no reviews undertaken of the audit logs created by the Active Directory and by the Oracle system. Without routinely reviewing audit trail data and event logs, detection of unauthorised access, attempted access or system misuse may go undetected.	Officers should develop procedures for regularly checking audit trails and event logs from all critical systems (including Network Active Directory, Oracle, and Academy), which would potentially identify suspicious and inappropriate user behaviour.	Agreed We are currently developing the Audit Trails and should have these in place on Oracle by the end of September 2010. Government Connect network users already have pro-active management of the audit logs. We currently do not have any tools available to analyse AD logs outside of Government Connect network. We will need to investigate the feasibility with our outsourced partners, Serco, to identify options available to us. Responsible Officer: Mike Thompson Deadline: 30 September 2010 Updated Response as at September 2010 We have just purchased a product called Nessus ProfessionalFeed which carries out vulnerability checks and compliance auditing relating mainly to servers and the posture of servers. We are also going to be purchasing the 'Tenable log correlation engine' which will monitor audit and event logs and includes protective monitoring, as required by Government Connect. New responsible officer: Miles Peters Revised target date for these: 31 December 2010 Updated Response as at November 2010 We had no funding available for the Log Correlation Engine, we have implemented an open source log aggregation system instead. Logs from domain controllers are now collected. A manual regime of log inspection must now be put in place and staff given appropriate training to understand and recognise anomalous activity. Officer responsible and target date unchanged.
3.	Provision of Vans to Employees The Council does not currently report the provision of a van to an employee as a benefit in kind on the recipient's form P11D. This is on the basis that a benefit in kind does not arise and the Council should be in a position to	We recommend that: <input type="checkbox"/> <input type="checkbox"/> vehicle usage checks are further enhanced by the introduction an annual vehicle declaration form,	Agreed The Fleet Manager (FM) sent the annual vehicle declaration form to vehicle users for comment. He reports no objections so it will be introduced for the year ended March 2010. The FM has also instructed service managers to carry out random checks in order to try and

	<p>demonstrate that this treatment is appropriate. The Council supports this position by undertaking usage checks using tracking system data.</p> <p>From our discussions, we understand that usage checks have, on occasion, identified instances of abuse but that these cases have not been formally considered to determine whether the abuse has led to a reportable benefit. Such cases should reviewed and if appropriate disclosed to HM Revenue & Customs (HMRC).</p>	<p>for completion by all drivers, and the addition of checks to the information captured by the tracking system</p> <p><input type="checkbox"/> <input type="checkbox"/> any instances of abuse identified from usage checks are formally considered, to determine whether the abuse has led to a reportable benefit. If appropriate, such cases should be disclosed to HMRC</p> <p><input type="checkbox"/> <input type="checkbox"/> the Council seeks written clearance from HMRC that the processes and evidence available would be considered sufficient to demonstrate that a reportable benefit does not arise.</p>	<p>identify private use. One vehicle per week will be chosen and the driving history for the 4 weeks prior will be checked, looking for instances where it has been used outside normal operational hours, at weekends or in unexpected places. In the event of private use being discovered, details will be sent to the Taxation Manager for him to consider if a taxable benefit arises, and if so to report it to HMRC. The Taxation Manager will give the new procedures 3 months to bed in and then seek clearance from HMRC.</p> <p>Responsible Officer: Richard Kniveton Deadline: Immediate</p> <p>Updated Response as at September 2010 Partially Implemented Drivers taking vehicles home have now signed a P11d “Council Van Driver Declaration”. Copies have been retained by the Fleet Manager and have been sent to the Taxation Manager. This confirms that they have not used the vehicle for private use and details the consequences should they be found to have done so. Since the Buildings Division have transferred to Derby Homes, the number of vehicles taken home by members of staff within the authority has reduced considerably.</p> <p>The vehicle tracker audit is under way and the Fleet Manager has implemented the checking of vehicle movements, one per week, since the beginning of June, based on 4 weekly periods for each of these reviews. Reviews currently cover Street Cleansing and Waste Management vehicles however Highways and Grounds vehicles are not currently fitted with Simplytrak and so cannot be checked.</p> <p>As a result of the above, the Taxation Manager will give the new procedures 3 months to bed in and then seek clearance from HMRC</p> <p>Responsible Officer: Keith Dalton Deadline: 31 December 2010</p> <p>Updated Response as at November 2010</p> <p>HMRC has given us written clearance that the processes and evidence available would be considered sufficient to demonstrate that a reportable benefit does not arise in the circumstances described.</p> <p>Recommendation now implemented.</p>
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4.	<p>Construction Industry Scheme – Mixed contracts</p> <p>We understand that the decision as to whether a payment falls within the scope of the Construction Industry Scheme is made at the time of payment and therefore based on the invoice rather than the contract itself. Where a series of invoices are submitted over a period of time from a contract that falls within the CIS, all payment arising from that contract should be subject to CIS. A general exception to this is calloff contracts.</p>	<p>The Council should review this process to ensure that individual invoices are being correctly treated based on the over arching contract.</p>	<p>Agreed</p> <p>A copy of the three recommendations has been sent to Heads of Finance and the Accounts Payable User Group for dissemination amongst staff who need to know so they can be incorporated into our workflow. The Taxation Manager will carry out spot checks with regard to adherence.</p> <p>Responsible Officer: Keith Dalton Deadline: Immediate</p> <p>Updated Response as at September 2010</p> <p>Following a review, it appears that the reference to an overarching contract has not yet been fully implemented. Further reminder will be sent to the Project Engineers by the end of December.</p> <p>Update Response as at November 2010</p> <p>Following the spot checks carried out, we have written to departments twice since the September update asking for confirmation that individual invoices are being correctly treated based on the over arching contract. Not everyone has responded - those who have say that where contracts fall within CIS, they have implemented the recommendation. It is proposed to write again shortly to those who have not responded.</p>
6.	<p>P11D completion</p> <p>Forms P11D are completed based on information provided by the head of each department annually. The accuracy and completeness of the Council's P11Ds is therefore dependant on the quality of the submissions returned.</p>	<p>The Council should consider introducing sample checks to verify that this system is robust.</p>	<p>Agreed</p> <p>We will carry out some sample checks to determine the accuracy of departmental submissions. This will be built into the 2010/11 return process and timetable.</p> <p>Responsible Officer: Keith Dalton Deadline: For April 2011 return</p> <p>Updated Response as at September 2010</p> <p>The Head of Internal Audit and Risk Management will ask departments to provide evidence of completeness of the 2009/10 P11d returns. This will be done during the March 2011 quarter so as to be a timely reminder for when departments prepare their 2010/11 returns.</p> <p>Responsible Officer: Keith Dalton</p>

			<p>Deadline: March 2011 - For April 2011 return</p> <p>Updated Response as at November 2010</p> <p>The Head of Internal Audit and Risk Management will ask departments to provide evidence of completeness during the March 2011 quarter so as to be a timely reminder for when departments prepare their 2010/11 returns.</p> <p>Responsible Officer: Keith Dalton</p> <p>Deadline: March 2011 - For April 2011 return</p>
	<u>Follow up of ISA260 09/10 Recommendations</u>		
1.	<p>Group Accounting Policies</p> <p>FRS 2 and FRS 9 require that the accounting policies of subsidiary companies, such as Derby Homes Ltd and Connexions Derbyshire Ltd, are aligned with the policies of the Council, for the purposes of Group Accounts.</p> <p>Inconsistencies currently exist between the policies of the Council and the Subsidiaries.</p> <p>No consolidation adjustments were deemed necessary in 2009/10, on the basis that any adjustment would not be material. However this was not formally quantified by the Council.</p>	<p>It is recommended that Derby Homes Ltd's and Connexions Derbyshire Ltd's accounting policies are fully aligned with those of the Council, or that resulting consolidation adjustments are quantified.</p>	<p>Agreed</p> <p>A full review of the Council's accounting policies is required as part of the transition to International Financial Reporting Standards. The accounting of all the Council's subsidiaries will be considered as part of this process and a restatement exercise will be carried out as part of the accounts preparation process for 2010/11 to ensure all subsidiary accounts are fully aligned to the Council's IFRS requirements.</p> <p>Responsible Officer: Chloe Kenny</p> <p>Deadline: March 2011</p> <p>Updated Response as at November 2010</p> <p>The restatement exercise for IFRS is currently underway. The original deadline of March 2011 is still considered achievable.</p>
2.	<p>Provisions for Future Pension Payments</p> <p>The Council has a provision in place for continued funding of liabilities for former DCT (passenger transport) employees' pensions. This provision relates to the Council's on-going pension liability for former employees of the Council when it provided a public transport service. The payments are made to Derbyshire</p>	<p>It is recommended that the Council seek an actuarial valuation for the continued funding provision for former DCT employees' pensions to enable a fair value to be attributed to it.</p>	<p>Agreed.</p> <p>An actuary valuation will be requested via the County Council.</p>

	<p>County Council Superannuation Fund.</p> <p>The Council was informed in April 2010, by Derbyshire County Council, that a reliable estimate could not currently be attributed to the superannuation fund for these former employees.</p>		<p>Responsible Officer: Mark Nash</p> <p>Deadline: Request to the County will be sent by end of September and response back monitored.</p> <p>Updated Response as at November 2010</p> <p>A request has been sent to the County and we have had a reply to confirm they are gathering the information together.</p>
3.	<p>Credit Risk</p> <p>There are no documented procedures for dealing with investments placed with institutions that have subsequently been downgraded on the counterparty list.</p>	<p>We recommend that the Treasury Management Strategy is updated to include a section on procedures to follow when existing investments are downgraded below the Council's thresholds.</p>	<p>Agreed</p> <p>The strategy will be updated in the forthcoming Treasury Management progress report to Cabinet.</p> <p>Responsible Officer: Ciaran Guilfoyle</p> <p>Deadline: December 2010</p> <p>Updated Response as at November 2010</p> <p>The Treasury Management Strategy is being updated as part of the annual audit currently being conducted by Internal Audit. For information the de facto procedure whenever a current counterparty is downgraded is to:</p> <ol style="list-style-type: none"> 1. Update the treasury management systems to ensure no further deals are placed with that counterparty. 2. Review with the Strategic Director of Finance the counterparty's credit worthiness to see whether it is better to withdraw any existing investments immediately (and thereby incur a stiff financial penalty) or allow investments to run their course. <p>It is not proposed to modify this procedure as part of the documentation process.</p>
4.	<p>Rent Debtor/Academy</p> <p>Our audit procedures identified that there is a reconciliation difference of £450,000 between the rent debtor balance in the general ledger and the total in</p>	<p>We recommend that the Council liaises with Derby Homes Ltd to identify the reason for the variance between the general ledger and</p>	<p>Agreed</p> <p>A dedicated resource has been made available and work carried out to date will be continued to achieve the consistency required between the</p>

	Academy (or the total of Academy debtor account listings).	Academy, and then resolve the issue to ensure that both the general ledger and Academy are consistent going forward.	<p>academy system and the financial ledger.</p> <p>Work is ongoing and liaison with Derby Homes will continue with a view to resolving the issue by March 2011.</p> <p>Responsible Officer: Peter Morris Deadline: March 2011</p> <p>Updated Response as at November 2010</p> <p>Work is ongoing and liaison with Derby Homes is continuing with a view to resolving the issue by March 2011.</p> <p>The reason for the variance has been identified and an alternative method of calculating the rent debtor has been formulated and a version of this will be used in the calculation of the rent debtor in 2010/11 and future years</p>
5.	<p>Rental Income for Investment Properties/Tenancy Details</p> <p>We were unable to obtain a total value for rental income in the year for investment properties (as detailed in the Fixed Asset Register) as there is no central system in place for recording cash flows relating to investment properties.</p> <p>In addition, tenancy details could only been extracted from information on the ledger (based on invoices) and not from a central database.</p>	<p>It is recommended that the Council operates a central system to aid with the cash flow management of rental income from investment properties.</p> <p>It is also recommended that a central database is maintained of all tenancy information (e.g. tenant, rate, dates, etc.)</p>	<p>Asset Management will liaise with Capital Accountancy Team regarding this matter and a system will be formulated in order to capture this information in the form required.</p> <p>Responsible Officer: Marcus Nicholson / Nicola Goodacre Deadline: End of December 2010</p> <p>Updated Response as at November 2010</p> <p>This matter is in progress and Asset Management is to provide Capital Accounts with their property rental information by end December 2010</p>

6.	Contractor Retentions There is no central record maintained by the Council of contractor retentions, rather it is the responsibility of the individual departments to maintain records for their respective departments.	It is recommended that the Council maintains a central record of all contractor retentions, both due and to be recovered. This will help the Council to identify any overdue or unpaid retentions to be recovered or written off.	Agreed It is proposed that all contractor information will be maintained centrally by the capital team to enable overdue and unpaid retentions to be identified and aid in the closure process. Responsible Officer: Nicola Goodacre Deadline: End of Feb 2011 Updated Response as at November 2010 Departments have been emailed and the capital team are now setting up a centralised spreadsheet to collect all the data.
7.	Fixed Asset Register (FAR) Our audit procedures identified vehicle, plant & equipment assets on the FAR which had no unique identifier, e.g. registration number plate for vehicles.	We recommend that all assets on the FAR have a unique identifier to support a complete FAR.	Agreed It is proposed that departmental officers will do a physical verification of assets once a year which will incorporate giving all Vehicle Plant and Equipment (VPE) a unique identifier to be included on the FAR. Responsible Officer: Nicola Goodacre Deadline: End of Feb 2011 Updated Response as at November 2010 A proforma has been created and is currently with the asset policies and procedures group for comment. It will then be issued to all responsible officers to complete and return to the capital team for all VPE by the end of March 2011.
8.	Fixed Asset Verification Our audit procedures involved selecting a sample of fixed assets from the FAR for physical verification to confirm their existence.	It is recommended that the Council undertakes a regular exercise of physically verifying assets on the FAR to support the	Agreed 20% of assets are inspected annually for the rolling programme which

	<p>From the sample selected, one asset was found to have been sold at auction on 14 February 2007 and therefore should not have been on the FAR at the year end.</p> <p>The Council does not currently undertake periodic physical verifications of assets to ensure that the FAR is complete and accurate.</p>	<p>completeness of the FAR.</p>	<p>includes the physical verification of the asset it is proposed to continue with this practise due to the size of the FAR with a completed list to be sent to departmental property officers for confirmation of the existence of the asset.</p> <p>Responsible Officer: Nicola Goodacre Deadline: End Feb 2011</p> <p>Updated Response as at November 2010</p> <p>The asset register is currently being put into IFRS groupings and new departmental structures. Once this has been completed it will be sent out to departments for a final check of confirmation of existence.</p>
9.	<p>Capitalisation Policy - Non-Enhancing Capital Expenditure</p> <p>Whilst the Council's capitalisation policy includes a section on the capitalisation of non-enhancing capital expenditure, it was noted that this section does not detail information such as:</p> <ul style="list-style-type: none"> • what constitutes non-enhancing capital expenditure; • how it should be identified; and • how it should be accounted for. 	<p>It is recommended that the Council reviews its capitalisation policy in relation to non-enhancing capital expenditure and ensure that it is fully compliant with the SoRP, FRS15 and best practice.</p>	<p>Agreed</p> <p>The capitalisation policy is reviewed annually and will continue to be updated to ensure compliance with the SORP and IFRS.</p> <p>Responsible Officer: Nicola Goodacre Deadline: Feb 2011</p> <p>Updated Response as at November 2010</p> <p>In progress</p>
10.	<p>Capitalisation Policy - REFCUS</p> <p>The Council's capitalisation policy does not include a policy for Revenue Expenditure Funded from Capital Under Statute (REFCUS).</p>	<p>We recommend that the Council updates its capitalisation policy to include a policy for REFCUS.</p>	<p>Agreed</p> <p>The capitalisation policy is reviewed annually and will continue to be updated to ensure compliance with the SORP and IFRS.</p> <p>Responsible Officer: Nicola Goodacre</p>

			<p>Deadline: Feb 2011</p> <p>Updated Response as at November 2010</p> <p>In progress</p>
11.	<p>Mixed Use Investment Properties There are no procedures in place at the Council to identify mixed use investment properties.</p> <p>This could have an impact on the depreciation charge for the year as investment properties are not subject to depreciation.</p>	<p>We recommend that procedures are adopted by the Council to identify mixed use investment properties.</p>	<p>Agreed</p> <p>A process of identification and recognition of mixed use investment assets will be carried out when the Fixed Asset Register (FAR) is restated for IFRS and the new classifications under IFRS are implemented.</p> <p>Responsible Officer: Marcus Nicholson Deadline: End of October 2010</p> <p>Updated Response at November 2010</p> <p>This process forms part of the re-classification of the assets for IFRS which is scheduled to be completed by mid-December 2010.</p>
12.	<p>Embedded Derivatives within Leases A central record is not maintained by the Council of embedded derivatives contained within leases.</p> <p>This could result in an oversight of specific terms and conditions, and associated accounting treatment.</p>	<p>We recommend that a central record of leases is developed for the purposes of IFRS and that embedded derivatives are considered as part of this exercise.</p>	<p>Agreed</p> <p>The Council is in the process of developing a centralised leases register. This will be extended to include details of embedded derivatives where relevant.</p> <p>Responsible Officer: Chloe Kenny Deadline: March 2011</p> <p>Updated Response at November 2010</p> <p>The restatement exercise for IFRS is currently underway and a record</p>

			of all property leases has been developed by the Estates team. The original deadline of March 2011 is still considered achievable.
13.	Reclassified Assets A number of fixed assets have been identified for reclassification during the year. These assets have been carried in the Balance Sheet using the valuation basis for their old category of fixed asset.	It is recommended that those assets reclassified during the year are revalued in 2010/11 based on the valuation basis for their new category of fixed asset.	Agreed Any assets previously valued based on an incorrect classification will be recognised and subsequently revalued using their correct classification for the period 2010/11. Responsible Officer: Nicola Goodacre / Marcus Nicholson Deadline: End of March 2011 Updated Response at November 2010 In progress