

Internal Audit – Progress Report

SUMMARY

- 1.1 The report informs Members on the internal audit activity for the period from 1 June 2011 to 31 August 2011.
- 1.2 At the end of the 1st quarter of the Audit Plan year, Internal Audit was slightly behind in its productivity targets and was behind in its service delivery target.
- 1.3 There were no audits finalised during the period that need to be brought to the specific attention of the Committee.

RECOMMENDATION

- 2.1 To note the activity and performance of Internal Audit in the period 1 June 2011 to 31 August 2011 and to comment accordingly.

REASONS FOR RECOMMENDATION

- 3.1 The Terms of Reference of the Audit & Accounts Committee requires that it considers a summary of internal audit activity (actual and proposed) and consider reports dealing with the management and performance of the providers of internal audit services.

SUPPORTING INFORMATION

- 4.1 This report summarises the internal audit work completed in the period from 1 June 2011 to 31 August 2011 and seeks a decision by the Committee to determine the audit reports it wishes to review in more detail at the next meeting.

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

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

Summary of internal audit activity – 1 June 2011 to 31 August 2011

4.4 Appendix 3 provides details of internal audit's overall opinion on the adequacy of the level of internal control for each of the 8 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. Appendix 4 provides members with the main issues relating to each completed audit.

4.5 Table 1: Overall Audit Opinion in audits finalised in the period.

Assurance Level	Chief Executive's Office	Children & Young People	Resources	Neighbourhoods	Adults, Health & Housing	Total
Comprehensive						0
Reasonable			5	2		7
Limited						0
None						0
N/A				1		1
Total	0	0	5	3	0	8

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

4.6 As a general policy, all audits leading to a rating of "Limited" "None" will be brought to the Committee's specific attention. In the period, there have been no audits which have rated the overall control in the area/service under review as either Limited or None. Appendix 3 contains a brief definition for each category of control rating.

4.7 Currently the Internal Audit Section has achieved a productivity rate of 72.15%. The target for the year is 73.5%. During the period, a total of 364.5 days has been spent on audit reviews within departments. The breakdown by department is shown in Table 2 below:

4.8 Table 2: Analysis of time spent by Directorate in the period

Directorate	Actual Days
Chief Executive's Office	25.50
Children and Young People	35.50
Resources	223.50
Neighbourhoods	49.75
Adults, Health & Housing	30.25
Total	364.50

4.9 The days delivered during this period have also been analysed over the different types of audit work. (See Table 3 below.)

4.10 Table 3: Analysis of time spent by areas of audit work in the period

Audit Area	Actual Days
Advice to Customers	29.00
Investigations	61.50
Governance Audits	2.75
Follow-up Work	13.50
Certification Work	13.75
Performance Indicator Audits	2.25
Managed Audits	59.00
IT Audits	49.75
Contract/Partnership Audits	0.00
Systems Audits	66.25
Probity Audits	33.00
Schools	33.75
Total	364.50

4.11 By 31 August 2011, Internal Audit had delivered 21.3% of the annual Audit Plan and the target for the same period was 22.8% completion.

4.12 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. Appendix 5 summarises the average score for each category from the 17 responses received. The average score from the surveys was 46.9 out of 55. The lowest score received from a survey was 36, while the highest was 54, which was achieved on 2 responses.

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 17 responses categorised the audit service they received as excellent, another 8 responses categorised the audit as good and 1 audit was categorised as fair. There were no responses that fell into the poor or very poor categories.

OTHER OPTIONS CONSIDERED

5.1 Not applicable.

This report has been approved by the following officers:

Legal officer	n/a
Financial officer	n/a
Human Resources officer	n/a
Service Director(s)	n/a
Other(s)	Richard Boneham, Head of Governance and Assurance

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Background papers:	None
List of appendices:	Appendix 1 - Implications Appendix 2 - Internal Audit Output Summary Appendix 3 - Opinions & Recommendations during the period Appendix 4 - Summary of audits finalised during the period Appendix 5 – Customer Satisfaction Survey scores

IMPLICATIONS

Financial and Value for Money

- 1.1 None directly arising.

Legal

- 2.1 Under the Accounts and Audit (England) Regulations 2011, the Council is required to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

Personnel

- 3.1 None directly arising

Equalities Impact

- 4.1 None directly arising.

Health and Safety

- 5.1 None directly arising.

Environmental Sustainability

- 6.1 None directly arising.

Asset Management

- 7.1 None directly arising.

Risk Management

- 8.1 None directly arising.

Corporate objectives and priorities for change

- 9.1 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 2011

August		Chief Executives	Children & Young People	Resources	Neighbourhoods	Adults, Health & Housing	Derby Homes	Fire & Rescue	Amber Valley	South Derbyshire	Other External Bodies	Total
	%											
Not Allocated		1	32	15	7	1	4	4	5	11		80
Allocated but not yet started	0%-10%		2	4	3	2	1	2	1	3		18
Started - Fieldwork commenced	0%-80%	2	2	8	2	2	5	2	1	2		26
Awaiting Review - Fieldwork complete and file submitted for review	80%				1				2			3
Reviewed but draft report not yet issued	90%			3	1							4
Draft Report issued but final report not issued	95%		1	4			1					6
Final Report issued	100%			5	2		2	1		3		13
Complete Job finalised but no formal report with recommendations issued	100%		5		1							6
	Total	3	42	39	17	5	13	9	9	19		156
Removed from Plan	0%											

Opinions & Recommendations During the Period

Job Name	Overall Control Assurance Rating	Recommendation Risk Ratings			
		Critical Risk	Significant Risk	Moderate Risk	Low Risk
Chief Executive's Office					
Children & Young People					
Resources					
Officers' Code of Conduct	Reasonable	0	1	0	0
Debtors 2010-11	Reasonable	0	0	1	4
Creditors 2010-11	Reasonable	0	0	3	0
Housing & Council Tax Benefits 2010-11	Reasonable	0	0	3	3
Main Accounting System 2010-11	Reasonable	0	0	3	1
Neighbourhoods					
Torex Leisure Management System – IT Security	Reasonable	0	0	6	4
Fleet Management – Vehicles and Plant	Reasonable	0	0	1	6
Derwent New Deal for Communities	n/a	0	0	0	0
Adults, Health & Housing					
Total Recommendations Made		0	1	17	18

Table does not include 6 audit finalised in respect of Internal Audit's external contracts or the 5 audits / assessments undertaken in respect of Schools.

Overall Control Assurance Ratings

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.

Summary of Audits Finalised During the Period

Introduction

The summaries below outline the number of control issues identified in final audit reports issued in the period. 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.

Resources

Officers' Code of Conduct

Overall Control Assurance Rating: Reasonable

The scope of this assignment focused on the revision and maintenance of the Officers' Code of Conduct.

The Council's Officer's Code of Conduct and Behaviour At Work had not been revised since 2006 and had become outdated and misaligned with the Council's organisational structure and values. It was agreed that a revised Officers Code of Conduct and Behaviour at Work would be developed, consulted upon and implemented by the end of December 2011.

Debtors 2010-11

Overall Control Assurance Rating: Reasonable

This audit focused on the processes and controls of the central Accounts Receivable service and also reflected on previous audit recommendations.

From the 29 key controls evaluated in this audit review, 20 were considered to provide adequate control and only 9 contained weaknesses.

All 5 of the control issues raised within this report were accepted. Three had already been implemented and positive action was agreed to be taken to address the remaining two by 31 December 2011.

Creditors 2010-11

Overall Control Assurance Rating: Reasonable

The objective of this audit was to ensure that invoice payments and changes to account details were made correctly. This audit focused on the Accounts Payable system and procedures, with sampling from 2010/11 transactions.

From the 26 key controls evaluated in this audit review, 22 were considered to provide adequate control and only 4 contained weaknesses.

All 3 of the control issues raised within this report were accepted and positive action was agreed to be taken to address the issues by 1 October 2011.

Housing & Council Tax Benefits 2010-11

Overall Control Assurance Rating: Reasonable

This audit focused on checking the quality of information provided by claimants in applying for benefit and ensuring that information had been used accurately in the benefit calculation. It also sought to review the awards of backdated benefit, the classifications of overpayments and establish whether any progress had been made against the Subsidy Action Plan.

From the 51 key controls evaluated in this audit review, 39 were considered to provide adequate control and only 12 contained weaknesses.

All 6 of the control issues raised within this report were accepted and positive action had already been taken to address one weakness. Action to address the remaining five control issues was agreed to be taken by 31 December 2011.

Main Accounting System 2010-11

Overall Control Assurance Rating: Reasonable

This audit focused on evaluating the effectiveness of controls within the general ledger system which ensure the integrity of transactions within the system is maintained.

From the 26 key controls evaluated in this audit review 20 were considered to provide adequate control and only 6 contained weaknesses.

All 4 of the control issues raised within this report were accepted by management and positive action in respect of all of the recommendations was to be completed by the end of December 2011.

Neighbourhoods

Torex Leisure Management System – IT Security

Overall Control Assurance Rating: Reasonable

This audit focused on systems administration and IT security configuration of the Torex Leisure Management system (TLMS). Specifically, we reviewed how well protected the sensitive data was from unauthorised access and disclosure.

From the 89 key controls evaluated in this audit review, 62 were considered to provide adequate control and only 27 contained weaknesses.

All 10 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 2011.

Fleet Management – Vehicles and Plant

Overall Control Assurance Rating: Reasonable

This audit focused on reviewing the adequacy of the systems in place for identifying, recording, maintaining and safeguarding Council vehicles and equipment.

From the 20 key controls evaluated in this audit review, 14 were considered to provide adequate control and only 6 contained weaknesses.

All 7 of the control issues raised within this report were accepted and positive action had already been taken to address one of the recommendations. Positive action in respect of 3 recommendations was agreed to be completed by the end of September 2011, the remaining 3 by the end of December 2011.

Derwent New Deal for Communities

Overall Control Assurance Rating: N/A

This work was undertaken to provide the Head of Governance & Assurance with assurances on the effectiveness of the governance framework as part of his review of the Council's governance environment. The Head of Governance and Assurance's opinion has been included in the Annual Governance Statement 2010/11.

Results of Customer Satisfaction Surveys

		Ave Score
A. AUDIT PLANNING		
1.	Consultation on audit coverage and timing	4.12
2.	Relevance of audit objectives and scope	4.24
B. COMMUNICATION & CONDUCT		
3.	Feedback during the audit	4.24
4.	Helpfulness of the auditor(s)	4.59
5.	Professionalism of the audit team	4.53
6.	Completed in an acceptable timeframe	4.47
C. QUALITY OF THE AUDIT REPORT		
7.	Clarity and presentation of the report	4.35
8.	Accuracy of findings	4.29
9.	Soundness and objectiveness of audit's conclusions	4.24
10.	Value of agreed actions to improve control environment	4.18
D. GENERAL		
11.	Overall satisfaction with the audit service	4.29

Scoring Guide: 1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent