

INTERNAL AUDIT – PROGRESS REPORT

SUMMARY

- 1.1 The report informs Members on the internal audit activity for the period from 1 March 2011 to the end of the Audit Plan year on 31 May 2011.
- 1.2 At the end of the Audit Plan year, Internal Audit has performed better than its service delivery target, but was behind in its productivity target.
- 1.3 There were no audits finalised during the period that need to be brought to the specific attention of the Committee. However, 5 of the Audits finalised during the period were given a marginal overall control rating.

RECOMMENDATION

- 2.1 To note the activity and performance of Internal Audit in the period 1 March 2011 to 31 May 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 March 2011 to 31 May 2011 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 March 2011 to 31 May 2011

- 4.2 Appendix 3 provides details of internal audit's overall opinion on the adequacy of the level of internal control for each of the 21 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 Appendix 5 covers exempt items which are not for publication.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 March 2011 and 31 May 2011.

Directorate	Good	Satisfactory	Marginal	Unsatisfactory	Unsound	No Opinion	Total
Chief Executive's Office		1				2	3
Children & Young People							0
Resources	1	3	4			6	14
Neighbourhoods		1				1	2
Adults, Health & Housing		1	1				2
Total	1	6	5	0	0	9	21

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

- 4.3 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 been no audits which have rated the overall control in the area/service under review as either unsound or unsatisfactory. Appendix 3 contains a brief definition for each category of control rating.
- 4.4 Currently the Internal Audit Section has achieved a productivity rate of 70.3%. The target for the year is 73.3%. During the period, a total of 393.75 days has been spent on audit reviews within departments. The breakdown by department is shown in Table 2 below:

Table 2: Analysis of time spent by Directorate in the period from 1 Mar 2011 to 31 May 2011

Directorate	Actual Days
Chief Executive's Office	35.75
Children and Young People	66.50
Resources	238.50
Neighbourhoods	37.00
Adults, Health & Housing	16.00
Total	393.75

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

Table 3: Analysis of time spent by areas of audit work in the period 1 Mar 2011 to 31 May 2011

Audit Area	Actual Days
Advice to Clients	34.75
Investigations	11.25
Governance Audits	0.00
Follow-up Work	12.50
Certification Work	17.25
Performance Indicator Audits	3.75
Managed Audits	138.50
IT Audits	32.00
Contract/Partnership Audits	5.25
Systems Audits	39.50
Probity Audits	47.75
Schools FMSiS	51.25
Total	393.75

- 4.6 The audit plan is a flexible document and it is inevitably subject to some changes during the year. One additional assignment was introduced into the plan during the period, another audit that was previously removed from the plan was re-introduced as the planned Safeguarding audit had to be postponed due to the Ofsted inspection.
- 4.7 By 31 May 2011, Internal Audit had delivered 91.8% of Derby City Council's annual Audit Plan and the target for the same period was 91% completion.

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 Audit & Risk Management

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Background papers:	None
List of appendices:	Appendix 1 - Implications Appendix 2 - Internal Audit Output Summary as at 31 May 11 Appendix 3 - Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 Mar 11 to 31 May 11 Appendix 4 - Summary of audits finalised between 1 Mar 11 & 31 May 11

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 – May 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												
Allocated but not yet started	0%-10%											
Started - Fieldwork commenced	0%-80%	1	6	6	3			2	1	2		21
Awaiting Review - Fieldwork complete and file submitted for review	80%			3								3
Reviewed but draft report not yet issued	90%			4		1	1					6
Draft Report issued but final report not issued	95%		1									1
Final Report issued	100%	5	7	27	6	7	6	6	11	7	1	83
Complete Job finalised but no formal report with recommendations issued	100%	2	25	11			1	1				40
	Total	8	39	51	9	8	8	9	12	9	1	154
Removed from Plan	0%		1	1				1	2			5

Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 Mar 2011 to 31 May 2011

Job Name	Overall control rating	Issues Raised / Recommendations Made			Issues Accepted		
		Funda-mental	Signif-icant	Merits Attention	Funda-mental	Signif-icant	Merits Attention
Chief Executive's Office							
Performance Indicator Self Assessment 2010/11	N/A	0	0	0	0	0	0
One Derby One Council - Transformation Process	Satisfactory	0	1	5	0	1	5
Single Programme Grant Certification 2010-11	N/A	0	0	0	0	0	0
Children & Young People							
Resources							
Network Security - Password Audit	Marginal	0	8	8	0	8	8
Internal Groups 2010-11	N/A	0	0	0	0	0	0
National Fraud Initiative 2010-11	N/A	0	0	0	0	0	0
Data Matching 2010-11	N/A	0	0	0	0	0	0
Anti-Fraud & Corruption Work 2010-11	N/A	0	0	0	0	0	0
Payment Card Industry (PCI) Compliance	Marginal	0	3	4	0	3	4
Audit Partnership Proposal	N/A	0	0	0	0	0	0
Treasury Management 2010-11	Satisfactory	0	3	9	0	3	9
Council Tax 2010-11	Good	0	0	4	0	0	4
NNDR 2010-11	Satisfactory	0	2	7	0	2	7
Cashiers 2010-11	Marginal	0	3	4	0	3	4
Temporary Staff Contract	Satisfactory	0	2	2	0	2	2
CIS Access	N/A	0	0	0	0	0	0
Payroll Error	Marginal	0	0	0	0	0	0
Neighbourhoods							
Street Lighting PFI	Satisfactory	0	3	4	0	3	4
Leisure Centre - Cash-ups	N/A	0	0	0	0	0	0
Adults, Health & Housing							
Derby City Council - Housing Allocations	Satisfactory	0	2	5	0	2	5
Mental Health Trust - Governance Arrangements	Marginal	0	2	0	0	2	0
Total Recommendations Made		0	29	52	0	29	52

Table does not include 17 audit finalised in respect of Internal Audit's external contracts or the 9 audits / assessments undertaken in respect of Schools.

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 between 1 Mar 11 and 31 May 11

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.

Chief Executive's Office

Performance Indicator Self Assessment 2010/11

Overall control rating: assigned to individual reviews (see text below)

This audit focused on the National Indicators the Council were required to report during 2010/11. From the 6 National Indicator reviews undertaken 4 were considered to provide a good level of control and 2 were considered to provide a satisfactory level of control, with 11 recommendations overall, 5 were considered significant, 6 merit attention and none were considered to be fundamental.

All 11 of the control issues raised within this summary report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of 7 recommendations had already been taken, 2 recommendations were due to be addressed by the end of December 2010 and 2 further recommendations were due to be addressed by the end of February 2011.

One Derby One Council - Transformation Process

Overall control rating: Satisfactory

This audit focused on various aspects of the transformation process and both formal and informal advice has been provided throughout the year.

All six of the control issues raised were accepted and positive action was agreed to be taken to address the recommendations by the end of April 2011.

Single Programme Grant Certification 2010-11

Overall control rating: N/A

We undertook an internal audit of the grant claim form and accounting systems in respect of Single Programme, for the year ended 31 March 2011.

Following our audit, we confirmed the following:

- The grant funding income was recorded appropriately in the Local Authority's accounting system.
- The expenditure claimed on the claim form was constant with the accounting records.

- The accruals and prepayments on the claim form were consistent with those shown in the accounting records.
- The Local Authority had complied with the Financial Memorandum and Guidance Notes 1 to 3.

Resources

Network Security - Password Audit

Overall control rating: Satisfactory

This audit focused on Network password security. From the 31 key controls evaluated in this audit review, 10 were considered to provide adequate control and 21 contained weaknesses.

All 8 control issues in this report were accepted and positive action was agreed to address one recommendation by 1 July 2011, another recommendation by 1 August 2011, 3 recommendations by 1 October 2011, 1 recommendation by 1 November 2011 and the final recommendation by 1 December 2011.

Internal Groups 2010-11

Overall control rating: N/A

Various members of the Internal Audit team attended various internal group meetings to provide an audit viewpoint on issues and to provide audit advice where necessary. Groups attended include Corporate Fraud Group, Cash Review Group, IT Liaison Officers, Controls Review Group etc.

National Fraud Initiative 2010-11

Overall control rating: N/A

This work is covered in the Fraud Work Update report.

Data Matching 2010-11

Overall control rating: N/A

This work is covered in the Fraud Work Update report.

Anti-Fraud & Corruption Work 2010-11

Overall control rating: N/A

This work is covered in the Fraud Work Update report.

Payment Card Industry (PCI) Compliance

Overall control rating: Marginal

This audit focused on non-IT issues relating to Payment Card Industry Data Security Standard (PCI DSS) compliance and to those Council establishments who collected significant amounts of income from card payments. From the 14 key controls evaluated in this audit review, only 3 were considered to provide adequate control and 11 contained weaknesses.

All 7 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Action in respect of 1 recommendation was to be completed by the end of March 2011 and the remaining 6 recommendations was to be completed by the end of April 2011.

Audit Partnership Proposal

Overall control rating: N/A

The Head of Audit and Risk Management and the Audit Manager have been involved in working with a neighbouring local authority to move forward a proposal to provide it with a full internal audit service delivered through a partnership arrangement.

Treasury Management 2010-11

Overall control rating: Satisfactory

This audit focused on evaluating controls over the operations and activities of the Treasury Management function, including review of policies and procedures, delegations of authority and reporting arrangements. From the 37 key controls evaluated in this audit review, 25 were considered to provide adequate control and 12 contained weaknesses.

All 12 of the control issues raised within this report were accepted and positive action had already been taken to address 1 of the recommendations. Positive action in respect of 8 recommendations were agreed to be completed by the end of July 2011, another 2 by the end of September 2011 and the final 1 by the end of February 2012.

Council Tax 2010-11

Overall control rating: Good

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

All 4 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all recommendations by 31 July 2011.

NNDR 2010-11

Overall control rating: Satisfactory

This audit focused on checking the adequacy of controls in administering the NNDR property database with Valuation Office listings and sought to ensure recovery action is initiated promptly, is legitimate and appropriate. From the 21 key controls evaluated in this audit review, 9 were considered to provide adequate control and 12 contained weaknesses.

All 9 of the control issues raised within this report were accepted and positive action was agreed to be taken to address 5 recommendations by the end of July 2011 and the remaining 4 by the end of December 2011

Cashiers 2010-11

Overall control rating: Marginal

This audit focused on the operation and controls employed in relation to the cashiering function at the new customer service centre on Albion Street. From the 14 key controls evaluated in this audit review, 10 were considered to provide adequate control and only 4 contained weaknesses.

All 7 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all recommendations by 31 October 2011.

Temporary Staff Contract

Overall control rating: Satisfactory

At the request of the former Interim Strategic Director of Resources, Internal Audit undertook a brief review in January 2011 of the current issues with the Comensura contract. The contract was due to end at March 2011, but a waiver for an extension was granted for 6 months until mid September, to allow for the procurement of a replacement contract. The audit identified a number of weaknesses in the existing arrangements.

All 4 of the control issues raised were accepted and positive action was agreed to be taken to address 3 recommendations by 1 September 2011 and the remaining recommendation by 1 October 2011.

Customer Information System (CIS) Access

Overall control rating: N/A

The Director of Customer Management requested investigative support into an alleged case of unauthorised access to the DWP's Customer Information System (CIS) records.

Payroll Error

Overall control rating: Marginal

At the request of the Strategic Director of Resources, Internal Audit was asked to investigate the circumstances which led to the payroll error which resulted in significant disruption to the February salary payment run.

Neighbourhoods

Street Lighting PFI

Overall control rating: Satisfactory

This audit focused on the systems of internal control for the Street Lighting PFI contract to provide assurance that the contract monitoring and ongoing contract payments were being adequately controlled and that the street lighting function was being adequately managed.

All 7 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of 1 recommendation has already been taken. Another 5 recommendations are due to be addressed in May, June, July and August 2011 and the remaining issue is due to be fully addressed by the end of June 2012.

Leisure Centre - Cash-ups

Overall control rating: N/A

Officers from Internal Audit undertook surprise cash-ups at Queens Leisure Centre, Moorways Sports Centre, Moorways Swimming Pool and Springwood Leisure Centre. The objective of the exercise was to ensure that all cash (income collected & petty cash/floats) could be accounted for and that income was appropriately secured and accurately receipted.

Cash security at each venue was considered adequate and only minor discrepancies were found, which did not warrant any formal recommendations.

Adults, Health & Housing

Derby City Council - Housing Allocations

Overall control rating: Satisfactory

This audit focused on reviewing the allocations policy and ensuring that it is adhered to in practice. The audit also considered the controls in place around management information and the treatment of grant monies received. From the 24 key controls evaluated in this audit review, 20 were considered to provide and only 4 contained weaknesses.

All 7 of the control issues raised within this report were accepted and positive action had already been taken to address 2 of the recommendations. Positive action was agreed to be taken to address the remaining 5 recommendations by the end of July 2011.

Mental Health Trust - Governance Arrangements

Overall control rating: Marginal

The Strategic Director for Adults, Health & Housing requested Internal Audit consider the governance arrangements around the partnership, to ensure adequate controls were in place and to ensure the Council was not exposed to excessive levels of risk through its work with Derbyshire Mental Health Trust (DMHT).

The 2 control issues raised within this report have been accepted and positive action has been agreed to address these issues by October 2012.