

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 September 2009 to 31 October 2009 and to comment accordingly.

### SUPPORTING INFORMATION

- 2.1 This report summarises the internal audit work completed in the period from 1 September 2009 to 31 October 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 September 2009 to 31 October 2009**

- 2.2 Appendix 2 summarises the output of internal audit for the period. During the period 1 September 2009 to 31 October 2009, 14 audits were finalised. This total excludes 8 Financial Management Standard in Schools (FMSiS) external assessments and 1 audit 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 14 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.

Table 1: Overall Audit Opinion in audits finalised between 1 September 2009 and 31 October 2009.

Department	Good	Satis- factory	Marginal	Unsatis- factory	Unsound	No Opinion	Total
Regeneration & Community	3						3
Children & Young People	1			1			2
Resources	1	1	2			1	5
Environmental Services	1		2				3
Corporate & Adult Services		1					1
<b>Total</b>	<b>6</b>	<b>2</b>	<b>4</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>14</b>

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 October the Internal Audit Section has achieved a productivity rate of 75.96%. The target for the year is 73.3%. During the period, a total of 313.75 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 September 2009 to 31 October 2009

Department	Actual Days
Regeneration and Community	44.25
Children and Young People	28.50
Resources	140.25
Environmental Services	40.75
Corporate and Adult Services	60.00
<b>Total</b>	<b>313.75</b>

- 2.6 The main areas of internal audit work in the period from 1 September 2009 to 31 October 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 September 2009 to 31 October 2009

Audit Area	Actual Days
Advice to Clients	10.75
Investigations	28.75
Governance Audits	4.75
Follow-up Work	8.25
Certification Work	3.25
Performance Indicator Audits	13.25
Managed Audits	16.25
IT Audits	63.25
Contract/Partnership Audits	9.25
Systems Audits	58.50
Probity Audits	75.25
Schools FMSiS	22.25
<b>Total</b>	<b>313.75</b>

<b>For more information contact:</b>	Richard Boneham, Head of Audit and Risk Management, 01332 255688 richard.boneham@derby.gov.uk
<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 - Implications Appendix 2 - Internal Audit Output Summary 1 September to 31 October 2009 Appendix 3 - Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 September to 31 October 2009 Appendix 4 - Summary of Audit reports issued between 1 September and 31 October 2009

<b>IMPLICATIONS</b>
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**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 – October 2009

October		Regeneration & Community	Children & Young People	Resources	Environmental Services	Corporate & Adult Services	External Bodies	
	%							Total
Not Allocated			5	6	1	2		14
Allocated but not yet started	0%-10%		12	6	1		4	23
Started - Fieldwork commenced	0%-80%	5	10	15	5	1	2	38
Awaiting Review - Fieldwork complete file submitted for review	80%					1	2	3
Reviewed but draft report not yet issued	90%	1		3		2	1	7
Draft Report issued but final report not issued	95%	1	11	2	1	1	1	17
Final Report issued	100%	6	14	10	3	3	5	41
Complete Job finalised but no formal report with recommendations issued	100%		1	4	1	2	2	10
	Total	13	52	46	12	12	17	153
Removed from Plan	0%							

## Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 September 2009 to 31 October 2009

Job Name	Overall control rating	Issues Raised / Recommendations Made			Issues Accepted		
		Funda-mental	Signif-icant	Merits Attention	Funda-mental	Signif-icant	Merits Attention
<b>Regeneration &amp; Community</b>							
CSP NI 18 - Adult Re-offending Rates	Good	0	0	2	0	0	2
CSP NI 39 - Alcohol Related Hospital Admissions	Good	0	0	2	0	0	2
NI 121 - Mortality Rate for Circulatory Diseases Under 75	Good	0	0	0	0	0	0
<b>Children &amp; Young People</b>							
NI 110 Participation in Positive Activities	Good	0	0	0	0	0	0
School Admissions Database	Unsatisfactory	0	6	0	0	6	0
<b>Resources</b>							
Debtors - Police Liaison	Marginal	0	3	1	0	3	1
NFI 2008-9 - Extractions & Matches	Good	0	0	0	0	0	0
Fixed Asset	Marginal	0	4	3	0	4	3
Accounts Receivable (Debtors) 2008-9	Satisfactory	0	4	3	0	4	3
Development of Data Matching Process	N/A	0	0	0	0	0	0
<b>Environmental Services</b>							
Building Services - Procurement	Marginal	0	7	1	0	7	1
Environmental Services Payroll	Marginal	0	3	5	0	3	5
NI 8 - Adult Participation in Sport	Good	0	0	0	0	0	0
<b>Corporate Services</b>							
Springwood Leisure Centre – Capital Works	Satisfactory	0	1	1	0	1	1
<b>Total Recommendations Made</b>		<b>0</b>	<b>28</b>	<b>18</b>	<b>0</b>	<b>28</b>	<b>18</b>

Table does not include 1 audit finalised in respect of Internal Audit's external contracts or the 8 FMSiS external assessments where the primary schools achieved the Standard.

<b>Unsound</b>	means that the risks identified within the audit are major and fundamental improvements are required.
<b>Unsatisfactory</b>	means that the risks identified within the audit are unacceptable and significant changes should be made.
<b>Marginal</b>	means that the risks identified within the audit are either numerous or significant and require improvement.
<b>Satisfactory</b>	means that the risks identified within the audit are minimal or less significant but changes are required.
<b>Good</b>	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 September 2009 to 31 October 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

#### CSP NI 18 - Adult Re-offending Rates

##### ***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 18 on the "Adult re-offending rates for those under probation supervision" was included in the sample of performance indicators selected for review during 2009/10.

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

- The performance figure for Quarter 2 - 2008/09 had been incorrectly rounded and subsequently under reported on Performance Eye and the figures quoted in the commentary from the performance report for Quarter 1 - 2009/10 did not equate to the actual performance figures due to rounding errors.
- The performance figures and targets for 2008/09 posted on Performance Eye had not been authorised by the designated officer.

The control issues raised within this report were all accepted and positive action was agreed to address these issues.

#### CSP NI 39 - Alcohol Related Hospital Admissions

##### ***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 39 on the "Rate of Hospital Admissions per 100,000 for Alcohol Related Harm" was included in the sample of performance indicators selected for review during 2009/10.

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

- Performance figures reported on Performance Eye for 2005/06 and 2006/07 have not been updated to the revised figures calculated for the most recent definition.
- The performance figure for 2007/08 posted on Performance Eye had not been authorised by the designated officer.

The control issues raised within this report were accepted and positive action was agreed to address these issues with immediate effect.

## **NI 121 - Mortality Rate for Circulatory Diseases Under 75**

### ***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 121 on the "Mortality rate from all circulatory diseases at ages under 75" was included in the sample of performance indicators selected for review during 2009/10.

From the 9 key controls evaluated in this audit review, all were considered to provide adequate control and none contained weaknesses.

## **Children & Young People**

### **NI 110 - Participation in Positive Activities**

#### ***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 110 on "Young people's participation in positive activities" was included in the sample of performance indicators selected for review during 2009/10.

From the 17 key controls evaluated in this audit review, all were considered to provide adequate control and none contained weaknesses.

### **Schools Admissions Database**

#### ***Overall control rating: Unsatisfactory***

The purpose of this exercise was to check the security of the web server and database server that held the Schools' application and admissions data. We ran a tool called the MBSA (Microsoft Baseline Security Analyzer) against both servers and found the following control weaknesses.

- On the web server and database server there were numerous local Windows accounts with weak passwords or passwords that never expired.
- There were numerous critical and important Windows Security Updates that had not been applied on the DCC-EDUSQL server.
- Both the web server and the database server had SQL server instances that were not configured to put password expiry on the SQL server accounts.
- There were numerous databases, containing personal and sensitive Schools Admissions data, with the GUEST account enabled.
- The Enrol Web Application was vulnerable as communications between users and the Enrol website were not encrypted over SSL (HTTPS).
- Highly sensitive data was stored in directories on the database server with the Everyone ACL, thus open to anyone on the Network.

All 6 of the issues were accepted and positive action was agreed to be taken to address all 6 control weaknesses by the Head of Strategic Infrastructure by the end of December 2009.



## Resources

### **Debtors - Police Liaison**

#### ***Overall control rating: Marginal***

Following Internal Audit's investigation of debtor's irregularities and the Council's subsequent referral of perceived criminality to Derbyshire Constabulary, officers from the Economic Crime Unit (ECU) have been closely liaising with Internal Audit throughout the prosecution process. During this time, officers from the ECU have expressed their concerns about what they perceive to be significant weaknesses in the Council's systems of internal control. We have already made a number of audit recommendations to address the control weaknesses highlighted within the Council's debtors system, its recruitment process and its operation of controlled stationery.

The ECU's remaining area of significant concern related to the collection and acceptance of cash payments for Market Traders. Following the conclusion of the related court case, we felt it was necessary to make formal recommendations in respect of the following issues to reduce the risks to the Council:

- Ultimately the Council's cash collection facility for Market Traders enabled a major fraud to be committed.
- In certain cases, outstanding debts have risen to unacceptable levels, which could provide Market Traders with an incentive to enter into corrupt practices.
- By allowing Council staff to negotiate face to face with Market Traders regarding the payment of their arrears, Council officers have been able to take advantage of the debtors' vulnerable position to steal cash. A number of local authorities use private bailiffs to tackle Market arrears.
- It has been suggested in the past that there is reluctance from Market Traders to pay by Direct Debit.

All 4 of the issues raised were accepted and positive action was agreed to be taken to address all of the control weaknesses. As a result, cash collections from Market Traders have ceased at the Eagle Centre and Market Hall. The intention is for all tenants to pay by direct debit. Also control improvements have been agreed for cash collection processes in respect of Allenton Market, Street Traders, Car Boot Sales, Eagle Market & Cattle Market Parking. A new Debt Management process has been introduced which has already achieved reductions in arrears amounting to approximately £120 000 (Aug 09). Face to face meetings to discuss arrears now involve two officers, from different departments and the use of bailiffs where necessary is being explored.

### **NFI 2008-9 - Extractions & Matches**

#### ***Overall control rating: Good***

This exercise has now drawn to a close. There is still a small number of cases where queries are outstanding and we are still receiving queries from other authorities, but DCC have completed the majority of the task.

11,833 matches were produced across 76 reports. The processing of these reports has resulted in the Council being able to claw back, or be in the process of clawing back, £25,909.34.

8,275 of the matches were cases where Benefit claimants were not involved e.g. duplicated invoices, overlapping tenancies, blue badge passes which have not been cancelled when the passholder has died. Internal Audit has co-ordinated the checking of these cases. 99.3% of matches have been resolved, resulting in a claw back figure of £20,101.47

3558 of the matches relate to benefit claimants and these have been processed by the Benefits Investigation Unit. Their approach has been to prioritise the reports into high, medium and low, taking only a 10% sample of cases for checking from the medium and low categories. They have processed 805 matches and have identified £5,807.87 in overpayments.

Two further NFI exercises are in preparation. The first involves matching Housing records to Housing Benefit records to find any cases where an illegal subletting may be taking place. The second is a repeat of the exercise where Council Tax data is matched against the Electoral Roll to identify possible incorrect claims for single occupier discount. The outcome of these matching exercises is expected in March 2010.

## **Fixed Assets**

### ***Overall control rating: Marginal***

This audit focused on the fixed asset records maintained by Accountancy to ensure that the accounts correctly reflect the assets owned by the Council.

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

- The fixed asset records did not clearly identify the nature of all assets listed and furniture had not been recorded on the fixed asset records as specified in SORP B28.
- There were no documented procedures relating to the compilation of the fixed asset records and evidence of write-offs had not been retained by the Capital Team.
- Art gallery and museums exhibits (heritage assets) had not been valued recently to enable them to be recorded in the Council's fixed asset records.
- The Capital Team's fixed asset records were not being comprehensively reconciled to the Property Asset Register.
- Fixed asset records were being maintained by the Capital Team on an Excel spreadsheet. Access to this spreadsheet was not appropriately restricted and no checks were being undertaken to ensure that the spreadsheet's logic and formulae had not been modified. Spreadsheets do not provide an audit trail of any entries or changes made and are prone to error.

All 8 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action had already been taken in respect of 2 recommendations, with 5 further issues to be addressed by mid November 2009 and the remaining issue was to be completed by the end of March 2011 in line with the DECATS process.

## **Accounts Receivable (Debtors) 2008-9**

### ***Overall control rating: Satisfactory***

This audit focused on the controls and processes of the Central Sundry Debtors function. The following issues were considered to be the key control weaknesses:

- The AR module has not been configured to enforce a segregation of duties which ensures that the person who raises the original invoice is unable to raise a credit note against that invoice.
- A report of all transfers was not being used by the Revenues Manager to monitor activity.
- Periodic statements were not being sent to appropriate debtors to allow them to confirm the transactions and balances on their accounts.

All 7 of the control issues raised within this report were accepted and positive action was agreed to be taken to address 6 recommendations by the end of December 2009. We do not consider the actions proposed in respect of our recommendation concerning the issue of periodic statements to recurring debtors, are sufficient as they do not mitigate the significant weakness identified. We have been unable to agree actions that are acceptable to both parties.

### **Development of Data Matching Process**

#### ***Overall control rating: N/A***

This work was originally an objective for Internal Audit in the Resources business plan 2008/9. To meet the objective Internal Audit created a set of exception tests and cross matches for the Council's major financial systems that were identified as areas of high risk. This involved reviewing the underlying database for each system and completing a data mapping exercise to ensure that only the data needed for the matches was extracted.

The main driver for this exercise was to support continuous auditing, fraud detection and system assurance work. Internal Audit produced detailed procedures to address how it would obtain, use, store, process, disclosure and destroy the data to be matched. The Council's Data Protection Manager and Principal Solicitor were consulted during the planning phases to help setup the correct procedures and legal framework to help drive improvement within the authority. Fair processing notices were put in place to cover the internal data matching exercise.

The internal data matching exercise is now fully operational.

## **Environmental Services**

### **Building Services - Procurement**

#### ***Overall control rating: Marginal***

There had been a number of significant issues brought to our attention in recent months/years with respect to the procurement practices within Environmental Services, in particular how suppliers/contractors were selected and engaged. The aim of the audit was to assess compliance with the Council's Contract Procedure Rules. It focused on Environmental Services mid range purchases and contracts between £20,000 and £50,000, concentrating on 2008/09 spend and recent supplier requests.

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

- At the time of the audit an official approved list of contractors was not being operated within Environmental Services.
- Job No. 712694 did not go out to tender and there was nothing recorded on the contract file to explain why the Contract Procedure Rules had not been followed.

- The financial standing and technical ability of contractors had not been assessed before inviting them to tender.
- The process for the receipt, custody and opening of tenders did not comply with the Contract Procedure Rules.
- Official orders were not being issued prior to engaging sub contractors to carry out work as required by the Council's internal rules
- The Declaration of Interest form in use was not fit for purpose and there were no procedural guidance notes for managers receiving the declarations, as to the necessary decisions or actions to take in relation to the interests declared.
- Employee declarations of interest had not been retained on personal files and a departmental register of declarations of interest had not been developed in order to record the information obtained.

All 8 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action had already been taken in respect of 2 recommendations. A further 3 issues were to be addressed by the end of January 2010, and another 2 by the end of March 2010. The remaining issue, regarding establishing approved lists or framework agreements, would not be addressed until the end of September 2010.

### **Environmental Services Payroll**

#### ***Overall control rating: Marginal***

The Council has determined to form an Employee Services Centre (ESC) for delivery of payroll and human resources services to three of its Directorates. The proposal is for staff within the ESC to have generic responsibilities for transactions that would ordinarily be strictly separated into payroll specific or HR specific. Environmental Services Human Resources (HR) Section was reported to have this model in operation already, and it was proposed to use their set up as a guide for the new centre. This audit focused on assessing the effectiveness of controls in place within Environmental Services HR and Payroll to provide an independent opinion as to the suitability of this set up as a model for the ESC.

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

- Generic job descriptions allow staff to perform both HR and Payroll functions and all staff have been allocated permissions that allow both the creation and authorisation of transactions. The only separation of duties is provided by a systems control.
- Exception reports were not reviewed within Environmental Services Payroll/HR or passed to Service managers for review and action where necessary.
- A separate report on variations to pay was not being produced or distributed in Environmental Services for verification by Service managers.

All 8 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues by the Head of Employee Service Centre. Positive action in respect of all 8 recommendations will be completed by the end of December 2009.

## **NI 8 - Adult Participation in Sport**

### ***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 8 on "Adult participation in sport and active recreation" was included in the sample of performance indicators selected for review during 2009/10.

From the 7 key controls evaluated in this audit review, all were considered to provide adequate control and none contained weaknesses.

## **Corporate & Adult Services**

### **Springwood Leisure Centre – Capital Works**

#### ***Overall control rating: Good***

This audit focused on the Springwood Leisure Centre gym and Library extension capital works project, from its inception through to the completion of the building works, and sought to provide assurance on the effectiveness of the systems of internal control administered by Property Services.

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

- An official order was not raised for the Springwood Leisure Centre gym and Library extension capital works in line with the Council's internal rules.
- The opening time of the tenders was not recorded on the 'Schedule of Quotations/Tenders Invited/Received' form.

Both of the control issues raised within this report were accepted and positive action was agreed to be taken to address both issues. Positive action in respect of 1 recommendation had already been taken and the remaining issue was to be completed by the end of December 2009.