



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
26 JUNE 2008**

Report of the Head of Audit and
Risk Management

ITEM 17

INTERNAL AUDIT – PROGRESS REPORT 2008/9

RECOMMENDATION

- 1.1 To note the activity and performance of Internal Audit in the period 1 April 2008 to 31 May 2008 and to comment accordingly.
- 1.2 To note the changes to the 2008/9 audit plan as detailed in Appendix 4.

SUPPORTING INFORMATION

- 2.1 The Internal Audit Plan for 2008/9 is the subject of a separate report to this Committee. This report summarises the internal audit work completed in the period from 1 April 2008 to 31 May 2008 and seeks a decision by the Committee to determine the audit reports it wishes to review in more detail at the meeting in October 2008.

Summary of internal audit activity – 1 April 2008 to 31 May 2008

- 2.2 Certain information pertaining to audit investigation work carried out is likely to reveal the identity of individuals and/or could relate to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime. Accordingly, a separate report has been produced that summarises audit activity on investigations that were concluded during the same period.
- 2.3 Appendix 2 summarises the output of internal audit for the period. During the period 1 April 2008 to 31 May 2008, 24 audits were finalised. This total includes 6 audits for external bodies.
- 2.4 Appendix 3 provides details of internal audit's overall opinion on the adequacy of the level of internal control for each system reviewed 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 April 2008 and 31 May 2008.

Department	Good	Satisfactory	Marginal	Unsatisfactory	Unsound	No Opinion	Total
Regeneration & Community	1		1				2
Children & Young People	2						2
Resources	3	1					4
Environmental Services	1						1
Corporate & Adult Services							
Total	7	1	1				9

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

- 2.5 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.
- 2.6 Currently the Internal Audit Section has achieved a productivity rate of 67.15%. The target for the year is 70%. A number of productive days were lost during the section’s recent office move. During the first two months of the year, a total of 243.50 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 April 2008 to 31 May 2008

Department	Actual Days
Regeneration and Community	29.75
Children and Young People	52.00
Resources	102.75
Environmental Services	45.25
Corporate and Adult Services	13.75
Total	243.50

- 2.7 The main areas of internal audit work in the period from 1 April 2007 to 31 May 2007 have been on Investigations, Managed Audit work (i.e. work on the Council’s major financial systems on which the External Auditors can place reliance) and on the Financial Management Standard in Schools (FMSiS). (See Table 3 below.)

Table 3: Analysis of time spent by key areas of audit work in the period from 1 April 2008 to 31 May 2008

Audit Area	Actual Days
Advice to Clients	18.25
Investigations x 16	57.25
Follow-up Work	5.25
Certification Work x 4	14.50
Performance Indicator Audits x 8	13.25
Managed Audits x 7	39.25
IT Audits x 7	27.50
Contract/Partnership Audits x 5	18.50
Systems Audits x 7	10.75
Probity Audits x 2	5.25
Schools FMSiS x 25	33.75
Total	243.50

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Background papers:

List of appendices: Appendix 1 - Implications
Appendix 2 - Internal Audit Output Summary 1 April to 31 May 2008
Appendix 3 - Opinion & Issues/Recommendations Made and Accepted in
Jobs Finalised during the period 1 April 2008 to 31 May 2008
Appendix 4 - Summary of Audit reports issued between 1 April 2008 to 31
May 2008

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 – 2008/9 Audit Reviews

May	%	Regeneration & Community	Children & Young People	Resources	Environmental Services	Corporate & Adult Services	External Bodies	Total
Not Allocated		6	5	20	4	3	12	50
Allocated but not yet started	0%-10%	3	41	2		2		48
Started - Fieldwork commenced	0%-80%	3	5	8	7	6		29
Awaiting Review - Fieldwork complete file submitted for review	80%		2	6	1	1	2	12
Reviewed but draft report not yet issued	90%	1		4				5
Draft Report issued but final report not issued	95%	1	16	3	1		2	23
Final Report issued	100%		8	3	1		6	18
Complete Job finalised but no formal report with recommendations issued	100%	4	1	1				6
	Total	18	78	47	14	12	22	191
Removed from Plan	0%							

Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 April 2008 to 31 May 2008

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							
Derby 7C Project - Certification	Good	0	0	0	0	0	0
Parking Enforcement - Income	Marginal	0	0	0	0	0	0
Children & Young People							
LPSA 2 Target 1 Educational Attainment	Good	0	0	0	0	0	0
Austin/Sunnyhill SureStart Establishment Visit	Good	0	0	0	0	0	0
Resources							
Payroll 2007-8	Good	0	1	4	0	1	4
H&CTB - Subsidy Claim	Good	0	0	2	0	0	2
Revenues Income Interfaces	Good	0	0	7	0	0	7
LAA - Systems Work 2007-8	Satisfactory	0	0	0	0	0	0
Environmental Services							
Sinfin/Allestree Golf Course Income	Good	0	0	2	0	0	2
Total Recommendations Made – Final reports		0	1	15	0	1	15

Table does not include 2 investigation audits, the 6 audits finalised in respect of Internal Audit's external contracts or the 7 FMSiS external assessments where the primary schools achieved the Standard.

Summary of Audits Finalised during period 1 April 2008 to 31 May 2008 (Excluding Investigations)

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

Derby 7C Project - Certification

Overall control rating: Good

We were asked to conduct an audit of the statement of accounts and final report for the Derby 7 C Project's accounts. This was a two year project which ended in February 2008 undertaken by the Council in conjunction with the University of Derby and 5 other partners as part of the Government's (DEFRA) Climate Challenge Fund (CCF). The aim of the project was to raise awareness of employees within the partnership of climate change issues, make them accept that climate is changing and that individuals can make a contribution to tackle this problem.

We ensured that the £83k expenditure incurred agreed with the original project plan, was eligible as per the scheme's guidance and the returns were accurate and complete before being submitted to DEFRA.

Parking Enforcement - Income

Overall control rating: Marginal

This audit focused on the receipt and banking procedures covering income deriving from Penalty Charge Notices processed at Saxon House reception.

Many control weaknesses were identified at the time of the audit and these matters were discussed with the Parking Services Manager in an exit meeting. Unfortunately, we were unable to formalise these matters in an Audit report in a timely fashion. Accordingly, a decision was taken to undertake a formal follow-up audit of this area in the 1st quarter of the 2008-9 Audit Plan. If any of the control weaknesses are still present, a formal audit report will be produced at that time.

Children & Young People

LPSA 2 Target 1 Educational Attainment

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. Internal Audit's review of the accuracy and completeness of performance information forms part of these

arrangements. LPSA 2 Target 1 on Educational Attainment was included in the sample of performance indicators selected for review during 2007/08.

All key controls evaluated in this audit were considered to provide adequate control and therefore no recommendations or control improvements were made.

Austin / Sunnyhill SureStart Establishment Visit

Overall control rating: Good

This audit focused on the overall control environment at the establishment, specifically focusing on their financial procedures, cash collection process, ordering and invoice processing system, imprest account control, controlled financial stationery records, inventory and stock records, and computer security.

A number of control weaknesses were identified at the time of the audit and these matters were discussed with the Programme Manager in an exit meeting. Unfortunately, we were unable to formalise these matters in an Audit report in a timely fashion. Accordingly, a decision was taken to undertake a formal follow-up audit of this area in the 1st quarter of the 2008-9 Audit Plan. If any of the control weaknesses are still present, a formal audit report will be produced at that time.

Resources

Payroll 2007-8

Overall control rating: Good

This audit focused on the controls in place within the Transactional Service Centre (TSC) to process payments to employees.

The points arising from the review were:

- Payroll exception reports were not being initialed / signed by the relevant TSC officer to evidence their review.
- The payroll system did not have any method of identifying when overtime was being paid to an officer on or above scale SO1.
- Where the method of payment changed for advance payments, the TSC officers were not updating the advance payments register to reflect this. This was not identified by a review process.
- The Payroll Manager was being placed in a vulnerable position by taking cash payments to the bank on behalf of employees.
- The supplier of the Council's payroll system did not inform the Council that their accreditation to the Payroll Standard had ceased.

All 5 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, action on 2 was agreed to be taken by the end of June 2008. The implementation of the remaining significant recommendation about cash payments was dependent upon the progress of the implementation of the new payroll system.

H&CTB - Subsidy Claim

Overall control rating: Good

This audit focused on whether procedures and controls ensure the timely submission of a certified Housing and Council Tax Benefits Subsidy Claim, which is appropriately and accurately completed using data that has been verified as being accurate and correctly classified.

The points arising from the review were:

- At the time of the audit the Subsidy Procedural Guidance Manual was not complete.
- Two backdated awards were granted to claimants incorrectly. This had not been identified by the sample checks undertaken on benefit awards.

Both of the control issues raised within this report were accepted and positive action was agreed to be taken to address these issues by 31 July 2008 for recommendation 1 and 30 June 2008 for recommendation 2.

Revenues Income Interfaces

Overall control rating: Good

This audit focused on the reconciliations performed to ensure income collected agreed to the postings to the Academy system and items posted to suspense were identified, investigated and cleared promptly.

The points arising from the review were:

- The former revenues system ORBIS could not be accessed to clear the suspense account.
- Written procedures for dealing with reconciliations of income received in respect of Council Tax or HB Overpayments to postings in Academy, or clearance of suspense accounts for the various areas within Academy were not produced until some 6 months after the implementation of the system. Written procedures for NNDR did not require officers to sign and date the reconciliations.
- The records maintained for each section's reconciliation of income collected to income posted to Academy, were not being signed and dated by the person producing them.
- The documents produced to evidence the clearance of the suspense accounts for NNDR and HB overpayments sections were not being signed or dated to evidence which officer was responsible for their completion.
- The Control officer suspected that the balance from the suspense account from the ORBIS system had not transferred successfully into Academy.
- Academy did not produce exception reports for management showing the status of suspense accounts and highlighting those items posted more than 30 days ago.
- NNDR records of reconciliations were being retained for a greater length of time than was considered necessary.

All the control issues raised were accepted and remedial action was taken to address all control weaknesses.

LAA - Systems Work 2007-8

Overall control rating: Satisfactory

The certification of the LAA Statement of Grant Usage 2006/07 highlighted a number of issues that required corporate resolution to ensure full compliance with LAA requirements. The purpose of the LAA systems work 2007/08 audit was to progress those issues.

The areas that were highlighted for development were:

- Asset management – a consistent approach was not being applied across the LAA to record assets.
- Partnership registers – the partnership register had not been completed.
- Risk registers – risks were recorded for individual schemes, but no generic risks were being recorded for the LAA as a whole.
- Verification - financial data was not being verified, only collated by the accountancy team.
- Clarification of appropriate expenditure – there were no general guidelines within the Partnership to unify the approach to identifying appropriate expenditure and some instances of inappropriate expenditure had been noted.
- Classification of expenditure – Government Office had not issued definitive guidance on capital expenditure and some items of revenue expenditure had been classified as capital.

The issues were initially raised with the Corporate Director - Resources and are being addressed through the LAA Finance Group.

Environmental Services

Sinfin/Allestree Golf Course Income

Overall control rating: Good

This audit focused on the procedures for the collection of income, including season tickets, green fees, tuition and golf shop sales at both Allestree Golf Course and Sinfin Golf Course.

The points arising from the review were:

- At each Golf Course a safe key was being kept in the till during the day and the key was being left on the premises overnight.
- Neither golf course maintained control records for the financial stationery held in their care.

Both the control issues raised within this report were accepted and positive action has already been taken to address both issues.