



central midlands audit partnership

Derby City Council – Internal Audit Annual Report 2017-18

Audit & Accounts Committee: 19th June 2018



Derby City Council



Providing Excellent Audit Services in the Public Sector

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Our Vision

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

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1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the ‘Chief Audit Executive’ (in the case of Derby City Council the Audit Manager) to provide an Annual Report to support the Annual Governance Statement, which is a statement of the effectiveness of the framework of governance, risk and controls in operation within the Council.
- 1.2 The Internal Audit Annual Report should:-
- include an opinion on the overall adequacy and effectiveness of the Council’s internal control environment, (**See Section 2**)
 - present a summary of the audit work on which the opinion is based, (**See section 3**)
 - draw attention to any key issues that may impact on the level of assurance provided, (**See section 4**)
 - provide a summary of the performance of the Service (**See Section 5**)
 - comment on compliance with PSIAS. (**See Section 6**)
- 1.3 The internal control environment comprises the Council’s policies, procedures and operations designed to:-
- establish and monitor the achievement of the Council’s objectives’
 - facilitate policy and decision making’
 - ensure the economic, effective and efficient use of resources’
 - ensure compliance with established strategies, policies, procedures, laws and regulations: and
 - safeguard the Council’s assets and interests from losses of all kinds, including those arising from fraud or corruption.

It is the responsibility of the Council to establish and maintain appropriate risk management processes, control systems, accounting records and governance arrangements.

- 1.4 The role of Internal Audit is to provide an assurance to the Council that these arrangements are in place and operating effectively. The Annual Audit Plan sets out proposals on how this will be achieved in the year ahead. The Council’s response to internal audit activity (individual audit reports) should lead to the strengthening of the control environment and therefore contribute to the achievement of the organisation’s objectives.

Internal audit is best summarised through the definition within the Standards as an *“Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”*.

2. Internal Audit Opinion- 2017/18

The Audit Manager is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, there is an understanding that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any issues that have carried forward into the following year
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of City Council's audit need that has been covered within the period.

Audit Opinion - 2017/18

I can confirm that sufficient assurance work has been carried out to allow me to form a conclusion on the adequacy and effectiveness of Derby City Council's internal control environment.

Based on the work undertaken during the year, in my opinion, Derby City Council's framework of governance, risk management and management control is ADEQUATE SUBJECT TO RESERVATIONS

A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement. However some actions have not progressed sufficiently to address the severity of control weaknesses identified.

Audit Opinion Categories:

- **Inadequate System of Internal Control** – Findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
- **Adequate System of Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
- **Satisfactory System of Internal Control** - Findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended

3. Basis of Audit Opinion

3.1 Internal Audit work completed during 2017/18

In accordance with PSIAS and the Accounts and Audit Regulations 2015, the Chief Audit Executive's annual opinion, is based upon and limited to the work performed by Audit during the year.

Work has been planned and performed so as to obtain sufficient information and explanation considered necessary, to provide evidence to give assurance on the effectiveness of the internal control system.

The 2017-18 Internal Audit plan, approved by the Audit and Accounts Committee in July 2017, was informed by Internal Audit's own assessment of risk and materiality, in addition to consultation with management to ensure it aligned with key risks facing the Council.

In preparing the overall opinion, the Chief Audit Executive has reviewed all audit activity carried out during 2017/18 and noted any issues arising from these audits that have been carried forward into 2018/19.

During the year, audit activity included reviews across the following area

- Key financial systems
- Systems based reviews
- Grant certification work
- Information Technology security reviews
- Procurement/contracts
- Anti-Fraud work
- Consultancy and advisory work

All audit reviews contain an overall assurance opinion based on the adequacy of the level of internal control in existence at the time of the audit. The rating is determined by the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks.

The assurance levels allocated for each audit are graded as

- **N/A** – assurance work undertaken where a rating opinion was not provided as it related to a specific consultancy/advisory issue.
- **None (N)** - We are not able to offer any assurance as 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 (L)** - We are able to offer limited assurance in relation to the areas reviewed and the effectiveness of 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 (R)** - 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 (C)** – 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 achievement of objectives well managed.

The assurance opinion assigned to the individual audit areas reviewed are as detailed below for information.

Department	% Plan Coverage*	Planned Audits	Audits Completed					
				N/A	N	L	R	C
Corporate Resources	40%	42	38	3	0	5	24	6
People Services	14%	15	14	1	0	2	7	4
Communities & Place	12%	13	8	0	0	2	5	1
Anti-Fraud & Probity	14%	15	13	4	0	6	3	0
Schools	20%	21	21	0	0	0	7	14
TOTAL	100%	106	94	8	0	15	46	25

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From the details above, I have concluded that audit coverage across the Council was adequate and the percentage of plan completion is sufficient to provide my opinion. The following key factors arising from audit work undertaken contributed to the “adequate but subject to reservation” on the opinion.

- There were no audits with a “no assurance” opinion on the control environment and it is acknowledged that the direction of travel in relation to control environment is positive, with senior management spearheading the drive to ensure audit recommendations are implemented in a timely manner, to secure improvement.

However:

- For 16% of audit reviews undertaken, we offered a limited assurance opinion in relation to the adequacy of the control environment.
- Significant security failings identified in ICT application systems reviewed which may have implications under the more stringent requirements of the General Data Protection Regulation which came in force at end of May 2018.

LIMITED ASSURANCE OPINION

The following audits completed, attracted a LIMITED ASSURANCE opinion.

- Special Education Needs & Disability- 6 control weaknesses : 5 moderate risk; 1 low risk
- Independent Living Fund -10 control weaknesses: 4 moderate risk 6 low risk
- Servelec Children System IT security – 12 control weaknesses: 2 significant risk; 3 moderate risk; 7 low risks
- User Access IT security – 10 control weaknesses: 2 significant risk; 2 moderate risks; 6 low risks
- ICT Asset management – 15 control weaknesses: 6 moderate risks; 9 low risks
- Revenues Contracts – 8 control weaknesses: 2 significant risks; 2 moderate risks; 4 low risks
- The Main Accounting-Reconciliation 2016/17- 18 control weaknesses: 5 moderate risks, 13 low risks.
- The Health and Safety– 8 control weaknesses: 4 moderate risks and 4 low risks.
- Markets – 17 control weaknesses: 1 significant risk, 4 moderate risks, 12 low risks.

A limited assurance opinion was also assigned to 6 areas of probity and investigative work undertaken by the Internal Audit team.

- Payment to vulnerable Adults –GASH A/C - 5 control weaknesses: 3 significant risks, 2 moderate risks
- HR leavers IT Access-1 control weakness: 1 significant risk
- Customer Services Investigation weakness: 8 control weaknesses, 7 moderate risks & 1 low risk
- HR Compliance - 7 control weaknesses: 5 moderate risks & 2 low risks
- Registrars- 10 control weaknesses: 6 moderate risks & 4 low risks
- Derby Arena XN Leisure system IT Security audit undertaken as part of leisure services review – 9 IT systems control weaknesses: 2 assessed as moderate risk and 7 as low risk.

Internal Audit undertook sufficient work to enable the Chief Financial Officer to certify a return to DfE stating that adequate assurance had been received over schools’ standards of financial management and the regularity and propriety of their spending.

3.2 Work of other review bodies

In preparing the overall opinion, the Chief Audit Executive has taken into account work undertaken and issues highlighted by External Parties and the assurance provided by them. During 2017/18 the Council was subject to inspections from various external bodies, with a mixed picture in terms of assurance outcomes.

See 4.1

3.3 Resources

A change programme initiated as a result of the external assessment required by the Public Sector Internal Audit Standards, starting in Mid -April 2017, meant that Internal Audit resources were diverted from assurance work towards reviewing development of the Partnership. The impact on plan delivery was recognised by the Partnership Board and addressed through authorisation for purchase of backfill resources that enabled delivery of sufficient planned work.

3.4 Recommendations Action Status

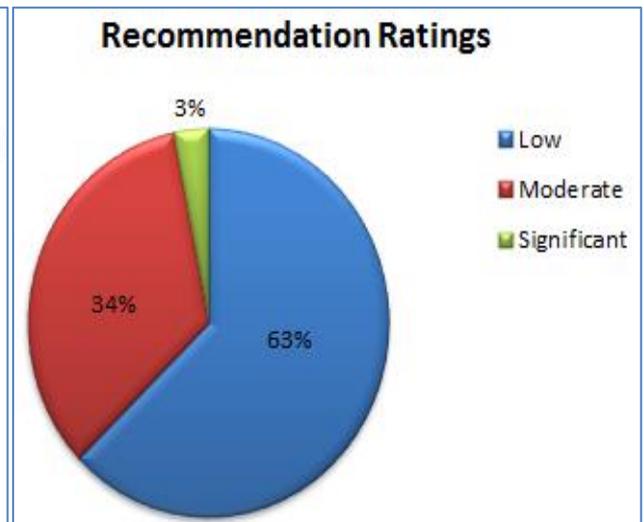
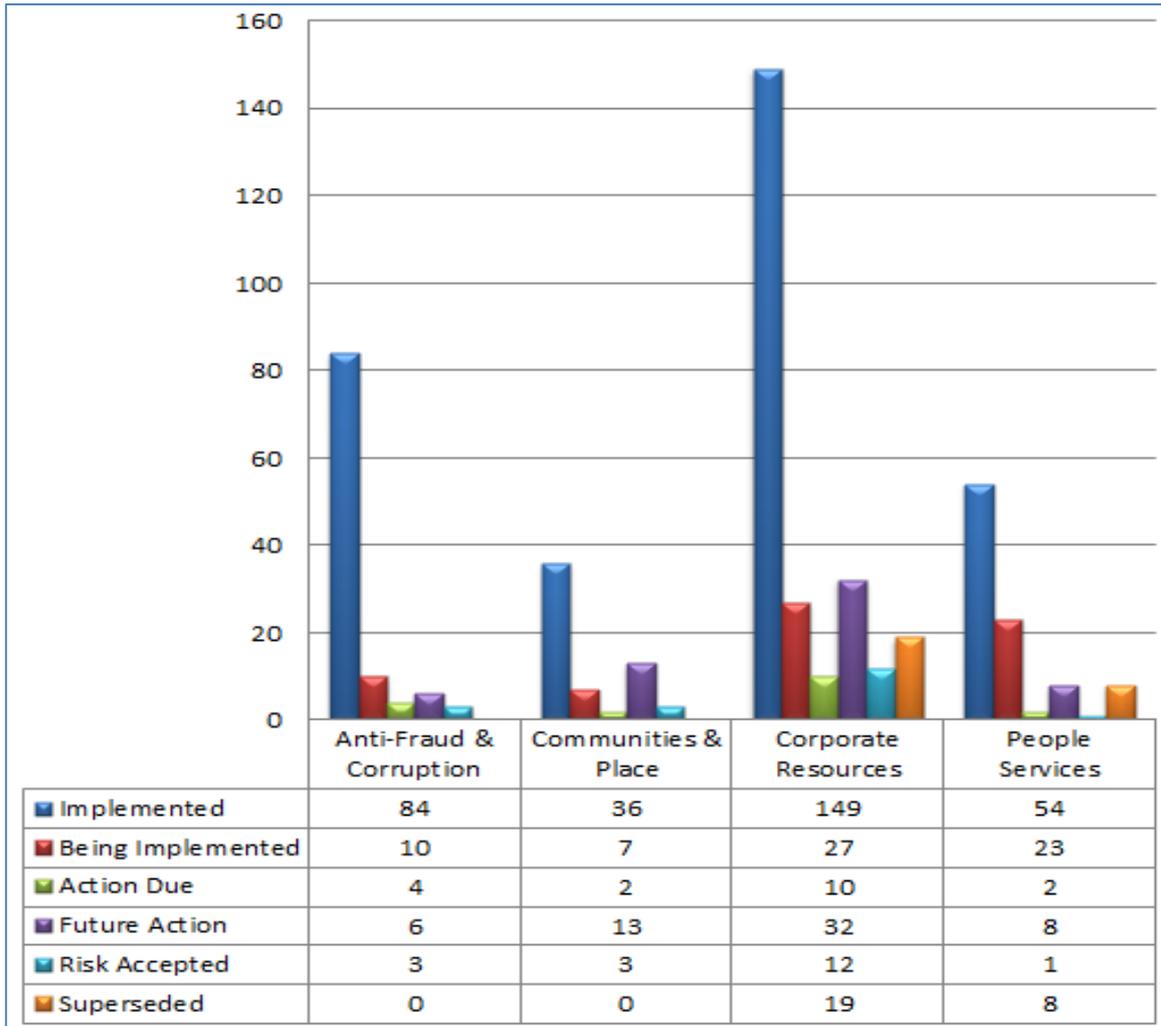
In preparing the overall opinion, the Chief Audit Executive has reviewed the implementation status of recommendations raised during this and the previous year. Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each individual audit report are to be realised.

During 2017/18, for work that was substantially completed, we evaluated 832 controls in total of which 525(63%) were assessed as adequate and 307 were assessed as controls partially in place (17%) or not in place (20%).

We attempt to follow-up management's progress in the implementation of agreed actions by requesting an update on each recommendation's implementation status, from officers, where the recommendations' action dates have been exceeded. Each recommendation made by Internal Audit has been assigned an "Action Status" category as detailed below.

- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **Being Implemented** = Management is still committed to undertaking the agreed actions, but they have yet to be completed. (This category should result in a revised action date).
- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.
- **Accept Risk** = Management has decided to accept the risk that Audit has identified and take no mitigating action.
- **Action Due** = Audit have been unable to ascertain any progress information from the responsible officer.
- **Future Action** = The recommendations haven't reached their agreed action date

Action Status of Recommendations



4. Other Issues Impacting on the opinion

4.1 During 2017/18, the Council Service provision was subject to external inspections with mixed outcomes from:

- Office for Standards in Education (OFSTED);- Children Social Services
- Electoral Commission – Elections services
- Government Registration Office (GRO) – Registrar service
- Local Government Association(LGA) – Peer Review

Overall, OFSTED assessed that children’s social services was good.

The GRO inspection took place after an in-depth review by Internal Audit that recommended various control improvements. The processes within the Registrar Services were assessed as good.

The Elections Services were given a clean bill of health by the Electoral Commission who assessed the service as excellent.

The LGA Peer review identified various weaknesses across the Council and a Corporate Improvement Plan is in place. Progress is reported regularly to senior management and Audit and Accounts Committee.

- 4.2 Control issues relating to taxi licensing raised in the Public Interest Report issued by the previous External Auditors in 2015/16 are still being implemented and processes tested. Arrangements are in place for these processes to be reviewed by Full Council in July 2018.
- 4.3 Progress on completion of actions noted to address the weaknesses highlighted in the S24 recommendation letter issue by External Audit in June 2017, was being reported to the Audit and Accounts Committee on a quarterly basis during 2017/18. Work is still on going to provide Committee with independent assurance that the controls have been embedded as part of the routine financial reporting process.
- 4.4 During 2017/18, the Council’s Statutory Roles of Head of Paid Service, Monitoring Officer and S151 Officer were being covered by officers acting up or with Interim appointments. Work is ongoing, to achieve stability, with the appointment to the Chief Executive officer post and a 12 month extension to the term of the Interim Strategic Director of Corporate Resources - S151 Officer.
- 4.5 A risk management Consultant was appointed in October 2017 to evaluate the current risk management framework and work with both officers and members to build in improvements. A number of fundamental deficiencies identified needed to be addressed and these actions are still on-going. The Chief Officer Group is championing the drive to improve the effectiveness of the Council’s arrangement for managing risks and the Performance Team is leading on re-embedding a risk management culture across the Council. A Corporate Board has been established to consider risk.
- 4.6 The working relationship between Internal Audit and key management at the Council was not effective for the most part of 2017/18, impacting on the provision of independent objective assurance to the Audit and Accounts Committee. This was flagged as an area that needed “to be addressed as a matter of priority” by the External Auditors. Steps have since been taken to ensure on going improvement to the effectiveness of the relationship, with regular dialogue between all the relevant parties.
- 4.7 The Council had in place a General Data Protection Regulation (GDPR) action plan, to ensure readiness for the introduction of the regulation in 2018, progress on which was being reported to the Audit and Accounts Committee and Chief Officer Group.
- 4.8 At the end of 2017/18 there were concerns around controls over the management and delivery of some high value projects. Management have instigated an internal audit review of the robustness of the processes around these projects.

5. Quality & Performance of the Service

5.1 Quality

Our Charter provides partner organisations and stakeholders with a formally defined purpose, authority and responsibility for their Internal Audit activity as well providing arrangements for avoiding conflicts of interest. Our code of conduct requires auditors to complete both an annual declaration as well as an assignment declaration for each audit undertaken

Our work is guided by an Audit Manual based around the PSIAS which references our own processes and documents. We endeavour to maintain this as an up-to-date point of reference for Audit staff which guides them through the relevant standards and our processes.

We use a bespoke Automated Working Papers package using MS Word, MS Excel and MS Access which reflects our own working practices that are designed to ensure consistency and adherence to Auditing Standards.

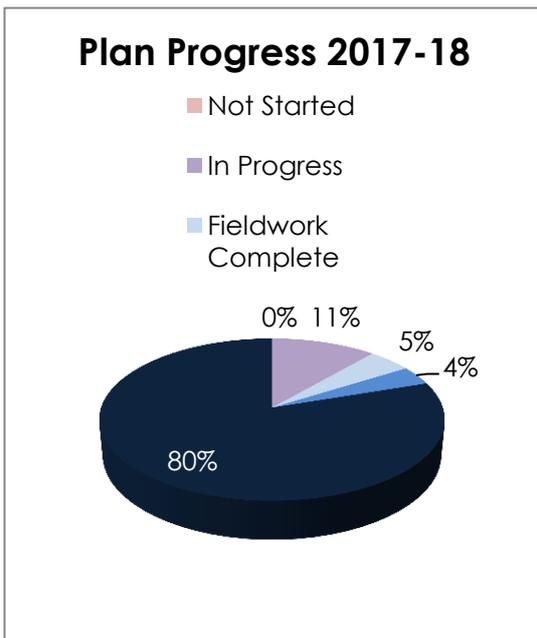
We use a bespoke database – Audit Management System, to record progress data for each audit assignment. This enables tracking and monitoring of time spent and status of audits from start to implementation of recommendations raised.

Following a closing meeting and prior to issuing the draft report, each assignment undergoes a two-stage quality control process. The audit file and report produced are subject to robust review and challenge by the Assistant Audit Manager and scrutinised further by the Audit Manager.

We develop the skills and competencies of our staff through a systematic appraisal on a monthly one to one meeting and an annual process. Staff are encouraged to source and request relevant training.

5.2 Service Delivery (% of Audit Plan Completed):

At the end of each month, Audit staff provide the Audit Manager with an estimated percentage complete figure for each audit assignment they have been allocated. These figures are used to calculate how much of each Partner organisation’s Audit Plans have been completed to date and how much of the Partnership’s overall Audit Plan has been completed. By the end of the Plan year, 89% of Derby City’s Audit plan had been substantially completed against a target of 90%.



Plan Progress	2017-18
Not Started	0
In Progress	12
Fieldwork Complete	5
Draft Report	4
Final Report	85
Total	106

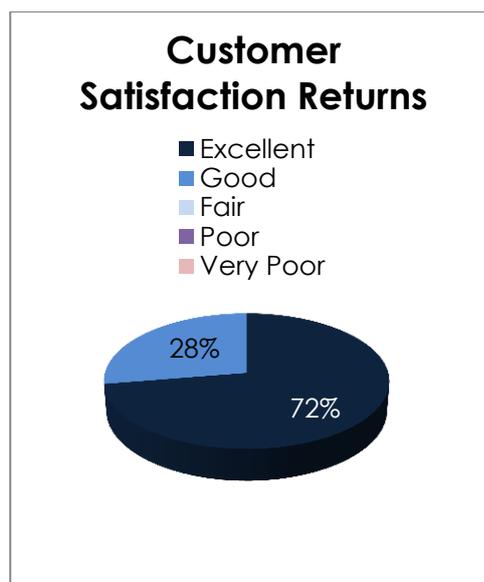
5.3 Customer Satisfaction Returns

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.

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 -28)
- **Very Poor** (scores 20 to 28)

The chart below summarises the overall scores from the 29 customer satisfaction survey responses received in 2017-18. The average score from the surveys was 49.9 out of 55. The lowest score received from a survey was 39, whilst the highest score was 55 which was achieved on 9 occasions.



6. Compliance with Standards

6.1 External Assessment of Internal Audit

Public Sector Internal Audit Standard 1312 requires that "External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation."

The Council is part of the Central Midlands Audit Partnership. The Head of Partnership requested that Milford Research and Consultancy Limited conducted this external quality assessment of the internal auditing activities of CMAP. The principal objectives of the quality assessment are to assess the internal audit activity's conformance to Standards, evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter to its partners), and identify opportunities to enhance its management and work processes.

The assessment is based on the following 3 ratings:

Generally Conforms - means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards.

Partially Conforms - means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

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Does Not Conform - means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

The initial assessment was carried out in the period February – April 2017. The consultant has fed back his findings to the CMAP Board.

	Number of standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	12	5	2
Performance Standards	33	28	4	1

An update position on our overall conformance with the Standards was provided in August 2017 and the Consultant re-assessed our conformance as follows:

	Number of standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	19	0	0
Performance Standards	33	33	0	0

The overall opinion is that the internal audit activity **Generally Conforms** with the Standards and Code of Ethics. The Consultant identified some opportunities for further improvement and development which have extensively been addressed. CMAP has made significant progress on its Change and Development Programme to enhance and build on the service it provides to partners. All areas of non-conformance now have been addressed via the Change Programme.