



Derby City Council – Internal Audit Progress Report

Covering the period 1st November 2014 to 28th February 2015)

Audit & Accounts Committee: 25th March 2015



Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

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Summary

Role of Internal Audit

The Internal Audit Service for Derby City Council is provided by the Central Midlands Audit Partnership (CMAP). The Partnership operates in accordance with standards of best practice applicable to Internal Audit (in particular, the Public Sector Internal Audit Standards – PSIAS). CMAP also adheres to the Internal Audit Charter.

The role of internal audit is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

Recommendation Ranking

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.

Control Assurance Definitions

Summaries of all audit reports are to be reported to Audit & 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

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Limited assurance assessment will be highlighted to the Audit &

Accounts Committee in Audit's progress reports.

Audit Coverage

Progress on Audit Assignments

The following tables provide Audit & Accounts Committee with information on how audit assignments were progressing as at 28thFebruary 2015.

In Progress at year end - 2013-14 Audit Plan Assignments B/Fwd	Type of Audit	Current Status	% Complete
Data Quality 2013-14	Governance Review	Final Report	100%
Treasury Management 2013-14	Key Financial System	Final Report	100%
Main Accounting System 2013-14	Key Financial System	Final Report	100%
Virtualisation Management	IT Audit	In Progress	75%
Oracle Business Intelligence	IT Audit	In Progress	75%
Wireless Network Infrastructure	IT Audit	In Progress	45%
Network Access Management	IT Audit	Draft Report	95%
Oracle EBS R12 Security Assessment	IT Audit	In Progress	75%

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Progress on Audit Assignments (Cont.)

2014-15 Audit Plan Assignments	Type of Audit	Current Status	% Complete
Corporate Programmes	Systems/Risk Audit	Allocated	10%
Regeneration	Investigation	Draft Report	95%
Safeguarding	Systems/Risk Audit	In Progress	75%
Payroll 2014-15	Key Financial System	In Progress	70%
Business Support	Systems/Risk Audit	In Progress	40%
Fixed Assets 2014-15	Key Financial System	In Progress	30%
Treasury Management 2014-15	Key Financial System	Allocated	0%
Main Accounting System 2014-15	Key Financial System	Allocated	0%
Teachers Pensions 2013-14	Key Financial System	Complete	100%
Anti-Fraud & Corruption 2014-15	Governance Review	In Progress	95%
Internal Groups 2014-15	Advice/Emerging Issues	In Progress	90%
Creditors 2014-15	Key Financial System	In Progress	65%
Debtors 2014-15	Key Financial System	In Progress	55%
Council Tax 2014-15	Key Financial System	Draft Report	95%
Non-Domestic Rates 2014-15	Key Financial System	Final Report	100%
Housing Benefits & Council Tax Support 2014-15	Key Financial System	Final Report	100%
IT Governance	IT Audit	Allocated	10%
Configuration Management	IT Audit	In Progress	75%
Job Evaluation	Investigation	In Progress	95%
Conflicts of Interest	Investigation	Draft Report	95%
Asset Management & Estates	Systems/Risk Audit	Draft Report	95%
Traffic & Transportation	Systems/Risk Audit	Final Report	100%
Licensing	Systems/Risk Audit	Draft Report	95%
Strategic Housing	Systems/Risk Audit	In Progress	75%
Integrated Commissioning: Younger Adults	Systems/Risk Audit	Allocated	5%
Schools Self Assessments 2014-15	Schools	In Progress	25%
25 Schools SFVS Assessments	Schools	Various	Various

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One piece of Grant Certification work has yet to be allocated.

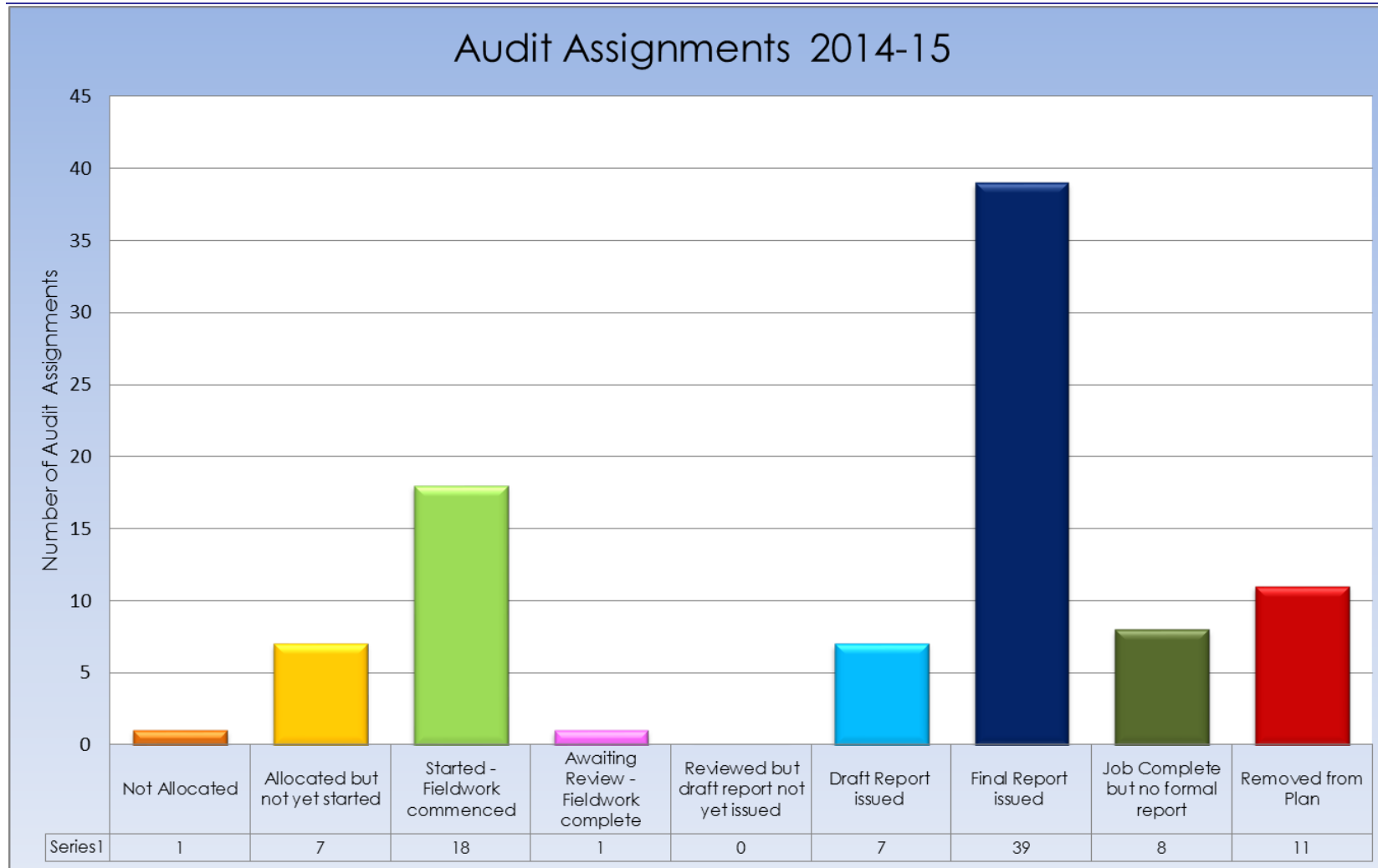
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Audit Coverage

Progress on Audit Assignments Chart

The following graph provides Audit & Accounts Committee with information on what stage audit assignments were at as at 28thFebruary 2015.

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Audit Coverage

Completed Audit Assignments

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Between 1st November 2014 and 28th February 2015 Internal Audit has completed the following 7 audit assignments for Derby City Council as well as completing 18 School's Financial Value Standard reviews:

Audit Assignment	Overall Assurance Rating
Data Quality 2013-14	Reasonable
Teachers Pensions 2013-14	Not Applicable
Non-Domestic Rates 2014-15	Comprehensive
Housing Benefits & Council Tax Support 2014-15	Comprehensive
Treasury Management 2013-14	Comprehensive
Main Accounting System 2013-14	Reasonable
Traffic & Transportation	Reasonable

All audits leading to a rating of "Limited" or "None" will be brought to the Committee's specific attention. Accordingly, no reports are brought to Committee's attention from this period.

The following summarises the internal audit work completed in the period and seeks to highlight issues which Committee may wish to review in more detail at the next meeting.

Chief Executives

Data Quality 2013-14

This audit focused on the performance indicators the Council was required to report on during the 2013/14 financial year, specifically the Corporate Scorecard Indicators. We have undertaken a Self-Assessment of these indicators and incorporated a review of the highest risk indicators. The following 5 performance indicators were examined in greater depth:

- SP PM13b – Percentage of fly-tipping removed from roads/pavements /highways in 1 working day of it being reported.

- SP PM13d – Percentage of offensive graffiti removed from roads/pavements /highways in 1 working day of it being identified or reported.
- SP PM 13f – Percentage of Street Cleansing incidents dealt with-in service standard timescales.
- EaRS PM14 – Number of dwellings and shared houses improved to acceptable standard after statutory or informal action.
- PH04 – Family Nurse Partnership.

This report contained 9 recommendations, 7 were considered a low risk and 2 a moderate risk. All 9 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 3 recommendations had already been taken, with a further recommendation due to be implemented by the end of December 2014. The remaining 5 recommendations were due to be addressed by the end of March 2015.

Resources

Teachers Pensions 2013-14

The Chief Finance Officer is required to certify that the entries made in the annual Teachers' Pensions Return are correctly calculated and paid. We concentrate on the element of the return in respect of teachers whose salary payments are administered other than directly through the LA payroll. Through undertaking a series of tests, we provide assurance that the entries on the return accurately reflect the deductions made and remitted. External Audit will seek to place reliance on this work later in the year.

Non-Domestic Rates 2014-15

This audit focused on reviewing the controls in place around Retail Relief, which was a new relief introduced for 2014-15, to ensure that it had been correctly applied to qualifying businesses. The audit also considered the property database and how it is maintained

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and updated, as well as the controls in place with the new external Printer, FDM, who commenced service delivery from 1st October 2014. From the 19 key controls evaluated in this audit review, 14 were considered to provide adequate control and 5 contained weaknesses. This report contained 5 recommendations which were all considered a low risk. The following issues were considered to be the key control weaknesses:

- The process for identifying and verifying the businesses that were suitable for retail relief was not robust enough to ensure that all businesses in receipt of the relief met the qualifying criteria.
- Two businesses that were ineligible to receive retail relief due to the types of business that they operated had had the maximum relief value applied to their NDR accounts.
- The Council was not obtaining the Processed Job Reports from FDM for NDR files: this meant there was no assurance being sought that the files sent to the external printers had been dealt with.
- The quality checks undertaken, the issues noted and actions taken were not being consistently recorded.
- There were inconsistent reconciliations of the data sent to and returned from FDM for NDR files and typing errors on the spreadsheet used for the reconciliation process. The reconciliations were also not subjected to management review.

All 5 issues raised within this report were accepted. Management decided to take no action in respect of 1 low risk issue and accept the risk identified. Action was agreed to be taken to address all 4 of the remaining issues before the end of February 2015.

Housing Benefits & Council Tax Support 2014-15

This audit focused on ensuring that the Council's Local Council Tax Support Scheme had been correctly applied and that appropriate controls were in place in respect of benefit expenditure and quality checks. The audit also looked at benefit cases in payment and

notifications of changes to benefit, including those received from the Department for Work and Pensions (DWP). Finally, the audit reviewed the procedures in place for dealing with significant birthdays and child care for the purposes of calculating benefit. From the 30 key controls evaluated in this audit review, 24 were considered to provide adequate control and 6 contained weaknesses. This report contained 5 recommendations which were all considered a low risk. The following issues were considered to be the key control weaknesses:

- The discrepancies arising from the weekly comparison exercise between the Housing Benefit payments processed by the Academy Revenues system (HB6450) and the total payments processed by the Academy Housing Rents system were not routinely investigated and resolved.
- It was not routine to produce exception reports for management scrutiny.
- There were £75k of benefit cheques issued over the period 2006 to 2014 which remained un-presented and had not been stopped.
- Memo alerts were not being routinely set up to prompt a review of claims where claimants were entitled to contribution job seekers allowance that was for a limited period of time.
- It was not routine for a sample of quality checks to be undertaken on claims that had been processed by the Council's Benefits team..
- The details of 'completed date' and the 'completed by' on the Atlas record held in Academy had not always been entered to indicate that the notifications had been dealt with promptly by a named officer.

All 5 of the control issues raised in this report were accepted. Positive action was agreed to address 1 of the control issues by 13th February 2015, 3 by 6th April 2015 and the remaining 1 by 31st July 2015.

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Treasury Management 2013-14

This audit focused on the controls over the operations and activities of the Treasury Management function, including investments and borrowing, reporting and training. From the 26 key controls evaluated in this audit review, 24 were considered to provide adequate control and 2 contained weaknesses. This report contained 2 recommendations, both of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- Document retention was undertaken on the basis of financial records requirements rather than the draft document retention policy.
- An up-to-date central training record was not being maintained to verify that all the members of the treasury management team had attended an appropriate level of training, to ensure they were operating their duties effectively.

Both of the control issues raised within this report were accepted and positive action was agreed to be taken to address them both by 1st April 2015.

Main Accounting System 2013-14

This audit focused on ensuring that VAT was accurately recorded in the correct accounting period in relation to transactions recorded in the suspense account and that VAT was accurately recorded in reports produced by the Oracle Financial System. The audit also sought to ensure that robust systems were in place in respect of budget monitoring and the use of the budget forecasting tool. Finally, the audit also reviewed journals to ensure that they were complete, accurate and properly authorised. From the 22 key controls evaluated in this audit review, 16 were considered to provide adequate control and 6 contained weaknesses. This report contained 6 recommendations, 5 of which were considered to present a low risk and 1 was considered to present a moderate risk.

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

- The VAT element of payments made by the Neighbourhoods Directorate was not being correctly classified as recoverable VAT within the Oracle Financial System and was not being posted to the VAT code within the General Ledger. The total value of the payment, inclusive of VAT, was being posted to the budget code. (**Moderate Risk**)
- Reports produced by the Oracle Financial System did not contain accurate and consistent information.
- A number of Budget Holders stated that they had not received financial training which enabled them to monitor their budgets effectively.
- Budget monitoring responsibilities within the Oracle Financial System had not been reallocated in a timely manner, where the previous Budget Holder had left the Council.
- Not all Budget Holders had taken up the offer of training in the use of the Oracle budget forecasting tool.
- Not all Budget Holders were using the budget forecasting tool as a means of forecasting spend on and reviewing their budgets.

All 6 issues raised within this report were accepted. Positive action had already been taken to address one issue and action was agreed to be taken to address 4 issues raised by 1st January 2015. No action was being taken to address the remaining control issue which was considered a low risk. The Corporate Finance Section accepted the issue raised, but opted to accept the risk identified and take no mitigating action. As required by this Committee, the full detail of this issue is recounted later in this report.

Traffic & Transportation (Bus Station)

This audit focused on the income collection processes at the Derby Bus Station. We sought to provide assurance on the effectiveness of the systems of internal control to satisfy the requirements of the Audit

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& Accounts Committee and External Audit. From the 18 key controls evaluated in this audit review, 8 were considered to provide adequate control and 10 contained weaknesses. This report contained 10 recommendations, all of which were considered to present a low risk. The following issues were considered to be the key control weaknesses:

- The Bus Station did not have documented operating procedures for the key financial duties.
- Information being received by the Bus Station for the purpose of invoicing was not sufficiently detailed to enable robust checks to be undertaken over the advertising income.
- Invoices were being raised, and where required, amended by a single officer without any secondary checks to ensure that they had been generated or amended correctly.
- Departure Schedules and other information required for managing the Bus Station was being held on the Bus Station Manager's personal drive.
- The Bus Station did not have any documented operating procedures for the cash collection duties.
- Cash machines were being emptied by a single officer and the Cash Reconciliation Sheets were not being signed by the officer responsible for collecting and counting the cash.
- Weekly bankings were not being reconciled to actual income, there was no provision on the Banking Sheet for the signature and date of the officer completing the form and alterations to paperwork were not being initialled by the person making the change.
- Two officers were taking the Bus Station bankings of between £4,000 and £6,000 to the bank themselves in contravention of the Council's Cash Handling Policy & Procedures.
- Over-collections and under-collections were not being routinely flagged to management.
- Cash held in the Bus Station safes exceeded the overnight safe limits agreed with the Council's insurers.

All 10 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 6 recommendations was due to be taken by 1st March 2015 with the remaining 4 recommendations due to be addressed by 1st July 2015.

Changes to the Audit Plan

Audit Plan Changes	Days
Business Intelligence	-20.00
Sector Development	-25.00
Total Days Removed from Audit Plan	-45.00
Investigation – CIS Payments	20.00
IT Forensic work	25.00
Total Days added to Audit Plan	45.00

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Audit Performance

Customer Satisfaction

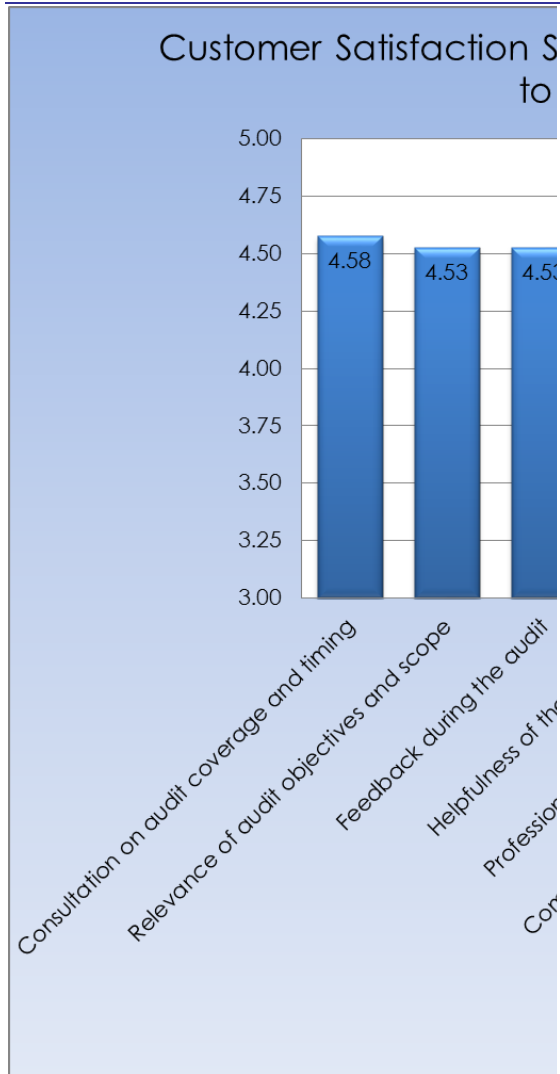
The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. The chart across summarises the average score for each question from the 59 responses received between 1st April 2013 and 28th February 2015. The overall average score from the surveys was 50.4 out of 55. The lowest score received from a survey was 29, whilst the highest was 55 which was achieved on 20 occasions.

The overall responses are graded as either:

- Good (scores 38 to 46)
 - Fair (scores 29 to 37)
 - Poor (scores 20 to 28)
 - Very poor (scores 11 to 19)
- Excellent (scores 47 to 55)

Overall 46 of 59 responses categorised the audit service they received as excellent, another 12 responses categorised the audit as good and 1 categorised the audit as fair. There were no overall responses that fell into the poor or very poor categories.

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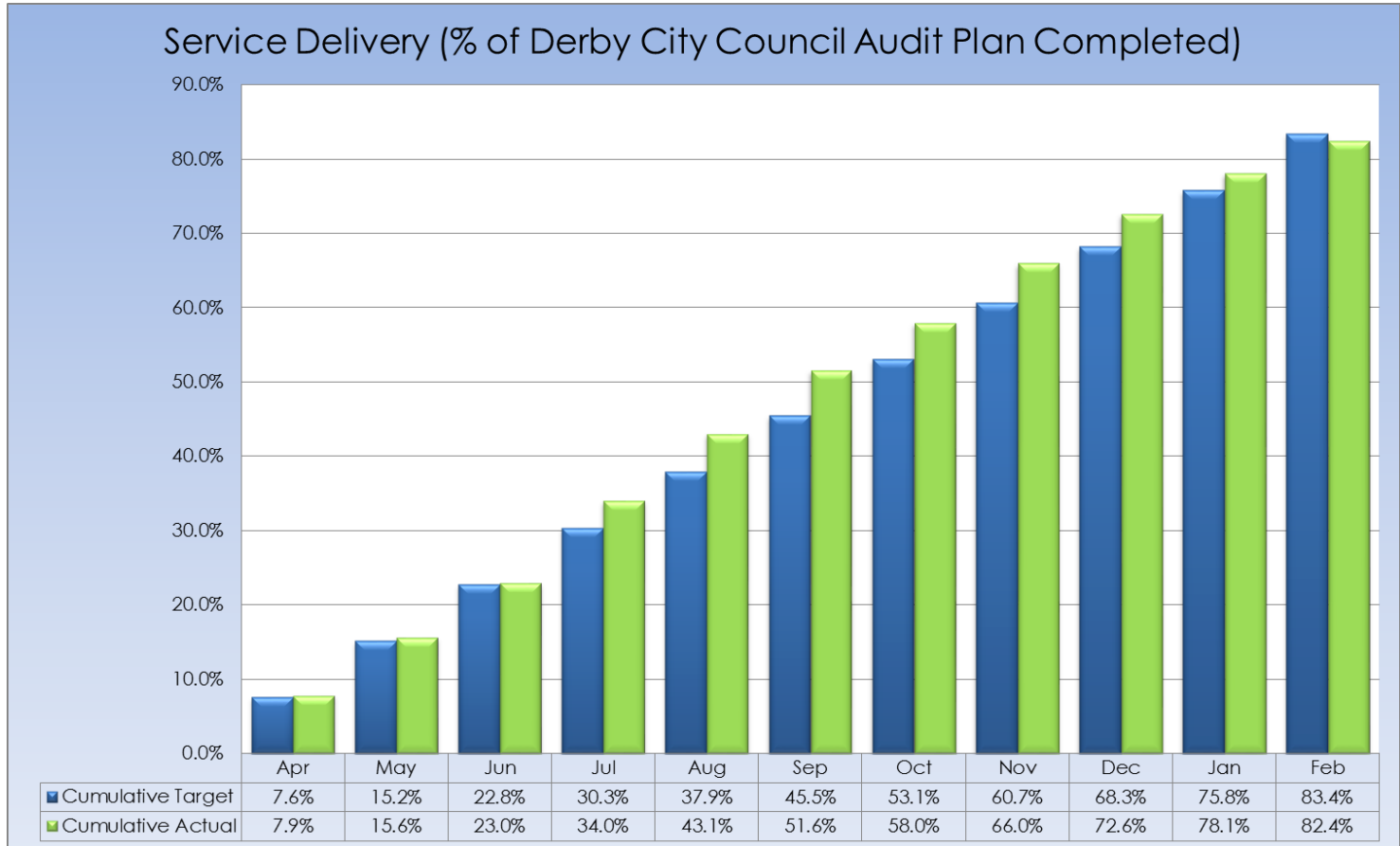
Audit Performance

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.

Shown across is the estimated percentage complete for Derby City Council's 2014-15 Audit Plan (including incomplete jobs brought forward) after 11 months of the Audit Plan year.

The monthly target percentages are derived from equal monthly divisions of an annual target of 91% and do not take into account any variances in the productive days available each month.



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Recommendation Tracking

Follow-up Process

Internal Audit has sent emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We will request an update on each recommendation's implementation status, which will be fed back into the database, along with any revised implementation dates.

Prior to the Audit & Accounts Committee meeting we have provided Chief Officers with details of each of the recommendations made to their departments which have yet to be implemented. This is intended to give them an opportunity to provide Audit with an update position.

Each recommendation made by Internal Audit will be assigned one of the following "Action Status" categories as a result of our attempts to follow-up management's progress in the implementation of agreed actions. The following explanations are provided in respect of each "Action Status" category:

- **Blank(Due)** = Action is due and Audit has been unable to ascertain any progress information from the responsible officer.
- **Blank (Not Due)** = Action is not due yet, so Audit has not followed up.
- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.
- **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)
- **Risk Accepted**= Management has decided to accept the risk that Audit has identified and take no mitigating action.

Implementation Status Details

Reports to Committee are intended to provide members with an overview of the current implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations made between 1stApril 2013 and 31stMarch 2014. All recommendations made prior to this period have now been resolved.

	Implemented	Being Implemented	Risk Accepted	Superseded	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	136	18	5	1	2	17	179
Moderate Risk	30	14	3	2	0	2	51
Significant Risk	2	0	1	0	1	0	4
Critical Risk	0	0	0	0	0	0	0
Totals	168	32	9	3	3	19	234

The table below shows those recommendations not yet implemented by Dept.

Recommendations Not Yet Implemented	Chief Executives	Children & Young People	Resources	Neighbourhoods	Adults Health & Housing	Totals
Risk Accepted	0	0	9	0	0	9
Being implemented	3	1	25	3	0	32
Due, but unable to obtain progress information	0	0	1	2	0	3
Totals	3	1	35	5	0	44

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. We will provide full details of any recommendations where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). One more 'Risk Accepted' recommendation has occurred during the period in respect of the Main Accounting System 2013-14 audit assignment. Accordingly, full details of this are included at the end of this report.

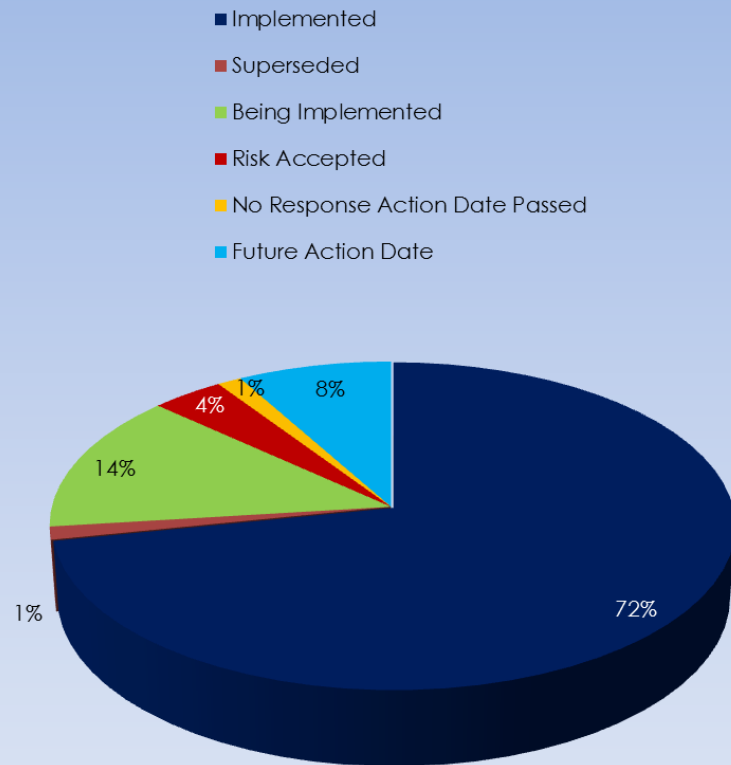
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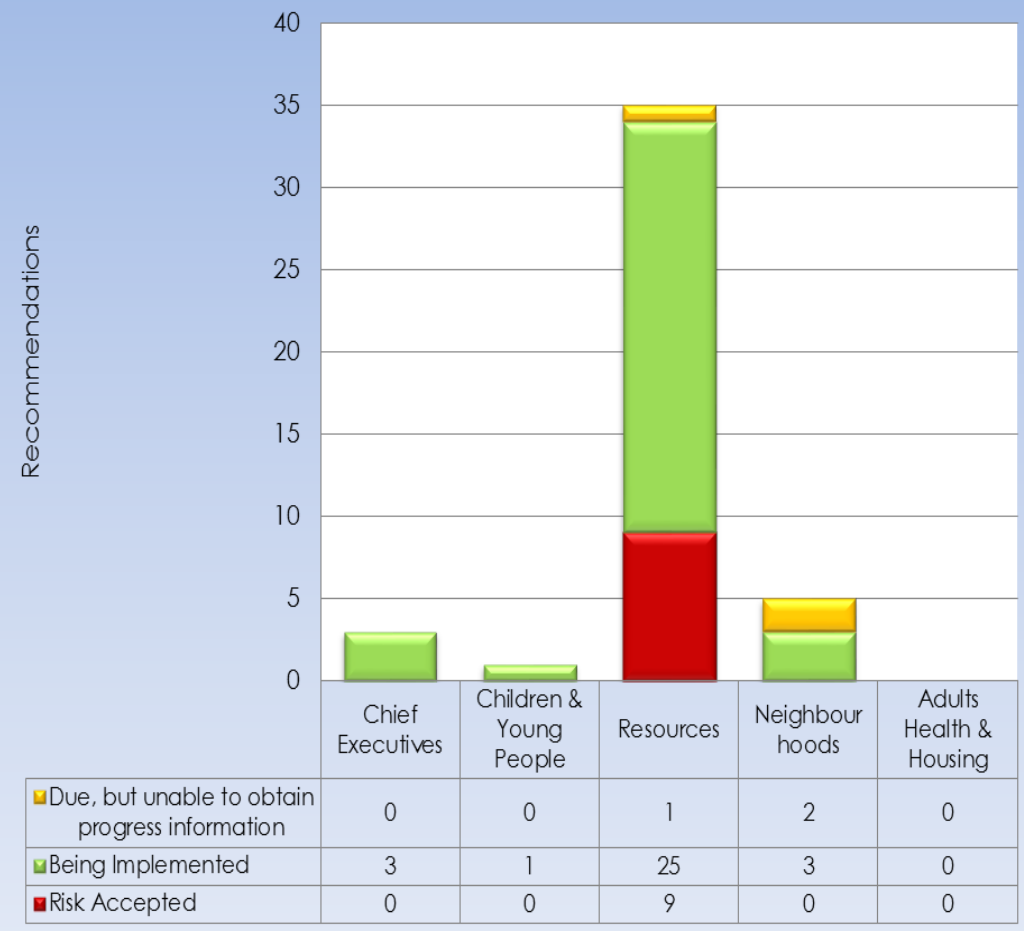
Recommendation Tracking

Implementation Status Charts

Action Status of Recommendations made between 1st Apr 2013 and 28th Feb 2015



Recommendations Not Yet Implemented by Department



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Recommendation Tracking

Recommendations Not Yet Implemented

Chief Executives

Audit Assignment	No. of Recs Still Being Implemented	No. of Recs Where Unable to Obtain a Response	Final Report Date
Public Health 2014-15	3	0	17 Sep 14
Total No. of Outstanding Recommendations	3	0	

Children & Young People

Audit Assignment	No. of Recs Still Being Implemented	No. of Recs Where Unable to Obtain a Response	Final Report Date
CYP Establishment	1	0	08-Apr-13
Total No. of Outstanding Recommendations	1	0	

Neighbourhoods

Audit Assignment	No. of Recs Still Being Implemented	No. of Recs Where Unable to Obtain a Response	Final Report Date
Leisure Facilities	2	0	24-Sep-14
Traffic and Transportation	0	2	06-Jan-15
Markets	1	0	19-Nov-13
Total No. of Outstanding Recommendations	3	2	

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Resources

Audit Assignment	No. of Recs Still Being Implemented	No. of Recs Where Unable to Obtain a Response	Final Report Date
GIS Application Security Assessment	6	0	08-Jul-14
Non-Domestic Rates 2014-15	3	0	23-Jan-15
Risk Management 2013-14	4	0	26-Feb-14
Payroll 2012-13	1	0	12-Apr-13
Payroll 2013-14	0	1	15-Jul-14
Cashiers 2012-13	1	0	29-May-14
Main Accounting System 2013-14	2	0	07-Jan-15
Contracts Register	1	0	16-Dec-13
Information Governance	2	0	11-Dec-13
VOIP Security Assessment	1	0	12-Dec-13
Workstation Security & Management Operations	4	0	17-Jul-13
Total No. of Outstanding Recommendations	25	1	

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Risk Accepted Recommendations

Resources

Main Accounting System 2013-14

Audit Finding

We expected that items posted to the Standard inc VAT category account in relation to output VAT (Accounts Receivable) would be automatically posted to the VAT account.

We reviewed 23 Accounts Receivable transactions to ensure that the VAT classified as standard inc had been posted to the VAT account within the General Ledger. We checked each of the 23 individual transactions and made comparisons with the respective entries in the Accounts Receivable system and the General Ledger. We were able to confirm that the VAT had been recorded and coded in both the systems for all the transactions we reviewed. However, we were made aware by the Tax Advice and Compliance Manager that the VAT classified as the standard inc category was not being reported within the Oracle generated summary report of Accounts Receivable monthly figures. Whilst this report was not used to complete the monthly VAT return, it provided a further example of anomalies being present within the reports produced from the Oracle Financial System.

If information within reports generated by the Oracle Financial System is inconsistent and inaccurate there is a risk that the Council's financial records could contain material errors and misstatements. This could lead to financial penalties if financial returns contain errors. This could also lead to the potential for additional work to be undertaken by External Audit leading to increased audit fees. There is also a risk of embarrassment and damage to the Council's reputation in the event that such issues were found in the public domain.

Recommendation 2

Risk Rating:Low Risk

Summary of Weakness:Reports produced by the Oracle Financial System did not contain accurate and consistent information.

Suggested Actions:We recommend that Management undertakes a review of reports produced by the Oracle Financial System, to ensure data within the system is accurate and consistent.

Summary Response

Responsible Officer: Mark Nash

Issue Accepted

Agreed Actions: System outputs are checked through the multiple reconciliations that are performed across the Council. A systematic review of all reports would prove impractical as this would be a manual process that would require every report to be test with all possible selection criteria.

Implementation Date:N/A