

INTERNAL AUDIT – PROGRESS REPORT

SUMMARY

- 1.1 After nine months of the Audit Plan year, Internal Audit is now performing slightly ahead in its service delivery target, but is behind in its productivity target.
- 1.2 Two of the Audits finalised during the period achieved an unsatisfactory overall control rating and, as such, should receive the Committee's specific attention.

RECOMMENDATION

- 2.1 To note the activity and performance of Internal Audit in the period 1 November 2010 to 28 February 2011 and to comment accordingly.

REASONS FOR RECOMMENDATION

- 3.1 The Terms of Reference of the Audit & Accounts Committee requires that it considers a summary of internal audit activity (actual and proposed) and consider reports dealing with the management and performance of the providers of internal audit services.

SUPPORTING INFORMATION

- 4.1 This report summarises the internal audit work completed in the period from 1 November 2010 to 28 February 2011 and seeks a decision by the Committee to determine the audit reports it wishes to review in more detail at the next meeting.
Summary of internal audit activity – 1 November 2010 to 28 February 2011
- 4.2 Appendix 3 provides details of internal audit's overall opinion on the adequacy of the level of internal control for each of the 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 a brief summary of the adequacy of control relating to each completed audit and the timeframe for the actions to address the issues raised.

Table 1: Overall Audit Opinion in audits finalised between 1 November 2010 and 28 February 2011.

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

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

- 4.3 As a general policy, all audits leading to a rating of “unsound” or “unsatisfactory” will be brought to the Committee’s specific attention. In the period, there have been two audits which have rated the overall control in the area/service under review as unsatisfactory. Appendix 3 contains a brief definition for each category of control rating.
- 4.4 Currently the Internal Audit Section has achieved a productivity rate of 69.86%. The target for the year is 73.3%. During the period, a total of 447.25 days has been spent on audit reviews within departments. The breakdown by department is shown in Table 2 below:

Table 2: Analysis of time spent by Department in the period from 1 Nov 2010 to 28 Feb 2011

Department	Actual Days
Chief Executive's Office	24.50
Children and Young People	83.00
Resources	279.00
Neighbourhoods	29.75
Adults, Health & Housing	31.00
Total	447.25

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

IMPLICATIONS

Financial and Value for Money

- 1.1 None directly arising.

Legal

- 2.1 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

- 3.1 None directly arising

Equalities Impact

- 4.1 None directly arising.

Health and Safety

- 5.1 None directly arising.

Environmental Sustainability

- 6.1 None directly arising.

Asset Management

- 7.1 None directly arising.

Risk Management

- 8.1 None directly arising.

Corporate objectives and priorities for change

- 9.1 The functions of the Committee have been established to support delivery of corporate objectives by enhancing scrutiny of various aspects of the Council's controls and governance arrangements.

Internal Audit Output Summary – February 2011

August	%	Chief Executives	Children & Young People	Resources	Neighbourhoods	Adults, Health & Housing	Derby Homes	Fire & Rescue	Amber Valley	South Derbyshire	Other External Bodies	Total
Not Allocated												
Allocated but not yet started	0%-10%	1	13		1	2		2	1	1		21
Started - Fieldwork commenced	0%-80%	3	3	22	2		3	4		3		40
Awaiting Review - Fieldwork complete and file submitted for review	80%								2			2
Reviewed but draft report not yet issued	90%			1					1			2
Draft Report issued but final report not issued	95%		1	3		1	3		1	1		10
Final Report issued	100%	4	7	19	4	5	2	3	7	4	1	56
Complete Job finalised but no formal report with recommendations issued	100%		16	5								21
	Total	8	40	50	7	8	8	9	12	9	1	152
Removed from Plan	0%			1	1				2			4

Opinion & Issues/Recommendations Made and Accepted in Jobs Finalised during the period 1 Nov 2010 to 28 Feb 2011

Job Name	Overall control rating	Issues Raised / Recommendations Made			Issues Accepted		
		Funda-mental	Signif-icant	Merits Attention	Funda-mental	Signif-icant	Merits Attention
Chief Executive's Office							
Commercial Rents	Good	0	0	3	0	0	3
Children & Young People							
Resources							
Virtual Private Networks	Marginal	0	6	8	0	6	8
Housing & Council Tax Benefit 2009-10	Satisfactory	0	2	8	0	2	8
Main Accounting 2009-10	Good	0	1	7	0	1	7
IT Hardware Inventory Control	Unsatisfactory	0	6	0	0	6	0
Petty Cash Accounts & Cash Floats	Satisfactory	0	2	1	0	2	1
Long Service Awards	N/A	0	0	0	0	0	0
Honoraria Payments	Marginal	0	0	0	0	0	0
Audit Management - Individual Performance Framework	N/A	0	0	0	0	0	0
Neighbourhoods							
Derby Live Income	Unsatisfactory	0	6	1	0	6	1
Chipside - IT System Security	Marginal	0	5	7	0	5	7
Adults, Health & Housing							
Derby City Council - New Builds	Good	0	0	1	0	0	1
Direct Payments	Marginal	0	5	2	0	5	2
Total Recommendations Made		0	33	38	0	33	38

Table does not include 13 audit finalised in respect of Internal Audit's external contracts or the 10 audits / assessments undertaken in respect of Schools.

Unsound - means that the risks identified within the audit are major and fundamental improvements are required.

Unsatisfactory - means that the risks identified within the audit are unacceptable and significant changes should be made.

Marginal - means that the risks identified within the audit are either numerous or significant and require improvement.

Satisfactory - means that the risks identified within the audit are minimal or less significant but changes are required.

Good - means that either no risks have been found or the risks identified within the audit are minor and only a small amount of changes would be beneficial.

Summary of Audits Finalised between 1 Nov 10 and 28 Feb 11

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.

Chief Executive's Office

Commercial Rents

Overall control rating: Good

This audit focused on reviewing controls within the process for maximising income from Commercial Rents, managing debt levels and debt recovery and incentive schemes. From the key controls evaluated in this audit review, 80% were considered to provide adequate control.

All of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Action had already been taken in respect of 2 recommendations, with all recommendations to be implemented by December 2010.

Resources

Virtual Private Networks

Overall control rating: Marginal

This audit focused on the policies, procedures and processes involved in the management of the Councils VPN which supports the connections of remote workers. The audit also focused on some of the configurations of the VPN and the user pool.

From the key controls evaluated in this audit review, 39% were considered to provide adequate control.

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

Housing & Council Tax Benefit 2009-10

Overall control rating: Satisfactory

This audit focused on providing assurance that the gateway to benefits was secure, properly managed and adequately recorded. The audit reviewed transactions in 2009/10 and year-end processes for 2008/09.

From the key controls evaluated in this audit review, 71% were considered to provide adequate control.

All of the control issues raised within this report were accepted and positive action was agreed to be taken to address 2 of the recommendations with immediate effect, and all by the end of March 2011.

Main Accounting 2009-10

Overall control rating: Good

Following discussions with the Head of Finance – Corporate, this audit focused on the correct application of the Capitalisation Policy, the prompt processing of accurate and correct virements, the correct working of the Threshold interface between Academy and Oracle and the correct use of salary information in the budget setting process.

From the key controls evaluated in this audit review, 60% were considered to provide adequate control.

All of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Action in respect of 2 recommendations had already been implemented and positive action with respect to the remaining recommendations will be completed by 31 July 2011.

IT Hardware Inventory Control

Overall control rating: Unsatisfactory

In February 2010, Serco was asked to produce a list of laptop devices that had not been used to access the Corporate Network in over a year, yet were still on the supported inventory. Internal Audit was asked to investigate and our findings suggested that there are discrepancies most likely due to poor controls over the maintenance of the inventory.

Positive action was agreed to address all recommendations by 31 March 2011.

Petty Cash Accounts & Cash Floats

Overall control rating: Satisfactory

This audit focused on the controls in respect of the operation of the petty cash accounts. From the key controls evaluated in this audit review, 38% were considered to provide adequate control.

All the control issues raised within this report were accepted. Positive action was agreed to be taken to address all recommendations by 1 April 2011.

Long Service Awards

Overall control rating: N/A

This provides an update on an issue that was previously reported to Committee at the meeting on 23 September 2010.

Following the arrest of the former employee the Police confirmed that no further action was to be taken on advice from the Crown Prosecution Service.

Honoraria Payments

Overall control rating: Marginal

Internal Audit investigated the circumstances under which a number of employees were paid what appeared to be Honorarium amounts under an “Additional Salary” code. Key findings revealed that the honoraria payments did not follow the full authorisation process.

It was concluded that the control weaknesses identified by the investigation would be addressed in the 2010-11 Payroll audit to ensure that proper procedures are followed in future.

Audit Management - Individual Performance Framework

Overall control rating: N/A

Internal Audit undertook to internally develop the existing Audit Management database system to include an individual performance module, which would inform Audit Management and each member of the Audit team about their own performance against the predetermined targets included in each officers MIP (Managing Individual Performance) objectives.

The database system has been enhanced to provide each individual with a personalised view of their performance, to allow them to monitor their personal performance against objectives which compare the time allocated with the time taken for audit assignments, the average scores achieved from Customer Satisfaction Surveys and the implementation of recommendations made.

Neighbourhoods

Derby Live Income

Overall control rating: Unsatisfactory

This audit was undertaken following a request by the Director-Derby Live, after being made aware of some financial discrepancies identified during the reconciliation process.

From the key controls evaluated in this audit review, 31% were considered to provide adequate control.

All the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of 1 recommendation has already taken place and the remaining recommendations will be addressed by the end of July 2011.

Chipside - IT System Security

Overall control rating: Marginal

This audit focused on systems administration and IT security configuration of the Chipside system. Specifically, we reviewed how well protected the sensitive data was from unauthorised access and disclosure.

From the key controls evaluated in this audit review, 58% were considered to provide adequate control.

All of the control issues raised within this report were accepted and positive action was agreed to be taken to address all but one of the recommendations by the end of April 2011. The remaining recommendation will be addressed by the end of June 2011.

Adults, Health & Housing

Derby City Council - New Builds

Overall control rating: Good

This audit focused on the new build projects which the Council were managing. The Council would oversee the construction of the new build properties, but on completion they would be handed over to Derby Homes to be managed. The new build projects directly link into the Council's Housing Strategy and contribute to the City Growth objective. The audit was undertaken in conjunction with a review of Derby Homes responsibilities relating to these new builds, however, only matters that relate to the Council are reported here.

From the key controls evaluated in this audit review, 94% were considered to provide adequate control.

The control issue raised within this report was accepted and positive action was agreed to be taken to address the recommendation by the end of January 2011.

Direct Payments

Overall control rating: Marginal

This audit focused on the governance arrangements in place for delivering Direct Payments. It also reviewed the processes in operation surrounding the advice and support provided to service users and the monitoring arrangements in place to ensure the correct use of Direct Payments. This audit has reviewed the systems and processes in place in accordance with the expectations determined by CIPFA's best practice guidance for Direct Payments and Individual Budgets.

From the key controls evaluated in this audit review, 41% were considered to provide adequate control.

All of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of all recommendations is to be completed by the end of April 2011.