



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
29 SEPTEMBER 2005**

ITEM 6

Report of the Head of Audit and
Risk Management

QUARTERLY INTERNAL AUDIT REPORT

RECOMMENDATION

- 1.1 To note the activity and performance of Internal Audit in the period 1 April to 30 August 2005 and to comment accordingly.
- 1.2 To agree the general approach to follow up reporting set out in paras 2.10 to 2.13.
- 1.3 To determine which if any audit report should be subject to a follow up report to the December Audit and Accounts Committee.

SUPPORTING INFORMATION

Background

- 2.1 The role of Internal Audit is to review and report on the control environment established by management to:
 - determine and monitor the achievement of the Council's objectives
 - identify, assess and appropriately manage the risks to achieving these objectives
 - facilitate policy and decision making
 - ensure the economical, effective and efficient use of resources
 - ensure compliance with established policies, procedures, laws and regulations
 - safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
 - ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes. It encompasses elements of corporate governance and risk management.
- 2.2 Internal Audit's work is planned to cover these areas and to provide an independent assessment of whether the Council's systems and procedures are working adequately. The Section carries out a risk assessment of the Council's financial and other systems which allows us to produce an Audit Needs Assessment and Strategic and Tactical Audit plans. Our risk assessment covers all auditable areas and considers all controllable risks. Based on the work carried out, the Head of Audit and Risk Management will deliver an annual audit opinion on the adequacy of the Council's internal control environment.

- 2.3 Planned coverage in 2005/6 is set out in the Annual Internal Audit Plan, as presented to Council Cabinet on 17 May 2005. It was also referred to Scrutiny Management Commission for comment. To meet this requirement for 2005/6, it has been planned to cover a total of 107 new audit reviews and finalise 64 audits that were started in 2004/5. The plan is however subject to variation as special investigations often exceed planned levels, new issues emerge, audits can sometimes be more complex than planned and take more time, and staff vacancies may occur. Any material changes to the Plan will be brought to Members attention through these quarterly reports. As members of this Committee will not have seen the plan, this has been included as a separate report on the Agenda.

Summary of Activity: 1 April to 30 August 2005

- 2.4 This report summarises the results of audits completed in the period 1 April to 30 August 2005 and seeks a decision by the Committee to determine the subjects of follow up reporting required to the Committee in December.
- 2.5 Each audit review is scoped and discussed with the relevant manager prior to it commencing. The findings arising from the audit are made known to the manager and a draft report is produced which contains recommendations for improvement. The manager responds to the recommendations and these responses are included in the final report.
- 2.6 Appendix 2 summarises the output of internal audit for the period. At the end of the period, 40 of the audits that commenced before April 2005 had been newly completed, with a further 13 where the draft audit report had been issued and was awaiting a response from the relevant manager. In respect of audits that commenced from April 2005, the current year, 7 audits have been completed, with one audit at draft report stage.
- 2.7 Appendix 3 provides full details of the number of recommendations in each category by audit for all final reports issued in the period. Where an overall control rating for the system was provided with the report, this is also included. The tables below provide an analysis of audit opinion on the system of control (Table 1) and a summary of the number of recommendations made by Internal Audit and those accepted by Management for all completed audits (Table 2). The Head of Audit and Risk Management will also brief members further on the main issues relating to each completed audit.

Table 1: Overall Audit Opinion, by Department

Department	Good	Satisfactory	Marginal	Unsatisfactory	Unsound	No Opinion	Total
Finance	4	2				5	11
Contract Audit			1				1
Dev & Cultural Services		1				1	2
Governance						2	2
Commercial Services	2						2
Schools						5	5
Education						1	1
Social Services						2	2
Policy	1					4	5
IT Audit						3	3
Total	7	3	1	0	0	23	34

Table 2: Classification of Recommendations Made

	Fundamental	Significant	Merits Attention
Recommendations Made	0	83	140
Recommendations Accepted	0	78	133

2.8 The classifications used are as follows . . .

- The categories for recommendations reflect a risk assessment based on a measure of likelihood and a measure of impact. 'Fundamental' recommendations are of the most concern and are those where the associated risk to the Council would be highly likely to occur and it would also have a high impact if it were to. No such weaknesses have been identified in these reports. 'Merits attention' recommendations are of the least concern.
- As a recent development, audit has recently introduced an overall opinion based on the overall adequacy of the level of internal control. Not all reports yet reflect this, given the recent introduction, but for those that do, the definition is as follows:

Unsound Major risks identified; fundamental improvements are required.

Unsatisfactory Unacceptable risks identified, changes should be made.

Marginal A number of areas have been identified for improvement.

Satisfactory Minimal risk: a few areas identified where changes would be beneficial.

Good A few minor recommendations (if any).

- 2.9 Table 2 shows that there has been a 94.6% acceptance rate for Internal Audit's recommendations. The difference between the number of recommendations made in the draft report and those accepted for inclusion in the final report occurs where the responsible managers:
- are prepared to bear the risk identified due to insufficient resources to meet the control recommended i.e. the introduction of separation of duties in a system requires additional resources
 - consider that there are compensating controls in place which mitigate the need for a new control
 - are able to demonstrate limitations in the system used that prevent the suggested control from being addressed.

Further Reporting to the Committee

- 2.10 The earlier report on this agenda, on the work programme of the Committee, has suggested how the Committee could choose to use these reports. That is, it would select, on an exception basis, a small number of audits where it would wish to see a follow up report presented by the managers responsible for the audited service, that would set out in more detail the issues and actions taken subsequently to address recommendations. Those reports would normally be presented at the next subsequent meeting of the Committee.
- 2.11 The number of follow up additional reports to be presented to Committee will need to be relatively limited for this system to be workable. The approach suggested is that the Committee should concentrate its attention on areas where the overall control environment appears relatively weak. The Committee will be able to form its own view of areas of interest from the information supplied, and no specific recommendations are therefore made in this report. However, the Head of Internal Audit considers that a reasonable guideline would be that:
- any report where the overall control framework is 'unsatisfactory' or 'unsound', or which contains a 'fundamental' recommendation will always be subject to a report. (There are none of these this cycle)
 - the Committee should consider the case for such reporting in the case of each 'marginal' report and, in the case of reports without an opinion, those that contain a relatively high number of 'significant' recommendations.
- 2.12 It would however be difficult to apply a system of reporting back to special investigations – such as in response to instances of suspected fraud – and it is suggested that such a framework could not apply to those reports.
- 2.13 Findings of individual school audits are reported initially to headteachers and the Chair of Governors. Internal audit also ask schools to positively confirm that the full report is considered either by the full school governing body or a committee of the governing body. Any cases where this is not done for 2005/6 audits will be reported back to this Committee, starting with the December Committee. Issues are primarily ones for the governing body, and it is not suggested that schools audits should be subject to the approach above. However, internal audit do perform cross cutting

audits to establish areas of possible general weakness in controls across schools in general, and it is intended that such audits should be subject to the suggested reporting framework above.

Approach to Schools Audits

2.14 The general approach to the audit of individual schools has also been subject to a wider review in early 2005/6. The revised programme will focus more on 'higher level' controls, for example those relating to governance arrangements, establishment of required policies, budget monitoring and financial management, and less on more traditional areas where failure would pose relatively little risk to the school. The intention is also to streamline and speed up the conduct of audits and use of self-assessment techniques may be an option. Proposals are likely to be issued for consultation in October and a report is scheduled to be brought back to this Committee in December.

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Background papers:	Internal Audit Annual Plan 2005/6
List of appendices:	Appendix 1 - Implications Appendix 2 - Internal Audit output - Summary Appendix 3 - Opinion/ No of Recommendations made in final audit reports issued in the period 1 Apr – 30 Aug 05 – By Audit

IMPLICATIONS

Financial

1. None arising directly.

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. Internal Audit contributes through its review work on the major corporate risks to the Council achieving corporate objectives and priorities. This is achieved by the audit of key systems and corporate governance issues and the associated risks. The work of Internal Audit is also relevant to the priority of 'value for money'.

Internal Audit Output – 1 April – 30 August 2005

Current Year	No. of Jobs	Actual 30 August 2005							Total
		Not Allocated	Allocated	Started	Awaiting Review	Reviewed	Draft Report	Final Report	
Contract Audit	3	2		1					3
Development & Cultural Services	10	4	3	1	1			1	10
Education	28	22		3	3				28
Finance	21	12	1	4				4	21
Corporate Governance	2	1	1						2
Derby Homes	6	6							6
IT Audit	7	1	3	2			1		7
Commercial Services	5	5							5
Policy	4	3		1					4
Fire Authority	5	2	2					1	5
Social Services	12	10			1			1	12
Corporate Services	2			1	1				2
External Bodies	2	2							2
TOTAL	107	70	10	13	6		1	7	107

B/Fwd	No. of Jobs Planned	Actual 30 August 2005							Total
		Not Allocated	Allocated	Started	Awaiting Review	Reviewed	Draft Report	Final Report	
Contract Audit	1							1	1
Development & Cultural Services	2					1		1	2
Education	12						6	6	12
Finance	13			2	1	2	1	7	13
Corporate Governance	4				1		1	2	4
Derby Homes	8						1	7	8
IT Audit	4			1				3	4
Commercial Services	2							2	2
Policy	7						2	5	7
Fire Authority	5						2	3	5
Social Services	5				1	2	1	1	5
Corporate Services									
External Bodies	1							1	1
B/FWD TOTAL	64			3	3	5	14	39	64

Appendix 3

Recommendations Made and/or Accepted in Final Audit Reports Issued in the period 1 April to 30 August 2005 – By Audit

Job Name	Overall control rating	Recommendations Made			Recommendations Accepted		
		Funda-mental	Signif-icant	Merits Attention	Funda-mental	Signif-icant	Merits Attention
Finance: Brought forward							
Housing Benefit: Processing of Claims	Good	0	0	8	0	0	8
Payroll	Good	0	0	0	0	0	0
Council Tax	Good	0	1	4	0	1	4
NNDR	Good	0	0	1	0	0	1
Benefits DIP	Satisfactory	0	3	5	0	3	5
Corporate Credit Cards Guidelines	Satisfactory	0	0	18	0	0	18
Accounting Systems Central (Follow-up)		0	0	0	0	0	0
Finance: Current Year							
Cheque fraud (Investigation)		0	0	0	0	0	0
Alleged payment (Investigation)		0	0	0	0	0	0
Council Tax - Online Balance Enquiry		0	0	0	0	0	0
Payroll – Remote System Access		0	1	0	0	1	0
Contract Audit : Brought Forward							
Home to School Transport	Marginal	0	5	9	0	5	9
Development & Cultural Services: Brought Forward							
Starters, Leavers & Variations	Satisfactory	0	5	12	0	5	12
Development & Cultural Services: Current Year							
Interreg III B Interim to 30/6/05		0	0	0	0	0	0
Schools : Brought Forward							
Wilmorton Primary		0	11	8	0	8	5
Breadsall Hill Top Infant		0	9	12	0	9	12
Cherry Tree Hill Juniors		0	8	9	0	8	9
Cavendish Close Junior		0	8	17	0	8	17
Wren Park		0	5	9	0	5	9
Education : Brought Forward							
Ordering & Invoice Processing		0	8	7	0	8	6
Governance : Brought Forward							
Partnership Working		0	5	5	0	4	3
Supporting People - Overall management		0	0	0	0	0	0
Commercial Services: Brought Forward							
Starters, Leavers & Variations (London Rd)	Good	0	2	6	0	2	5
Starters, Leavers & Variations (Stores Rd)	Good	0	2	7	0	2	7

Job Name	Overall control rating	Recommendations Made			Recommendations Accepted		
		Funda- mental	Signif- icant	Merits Attention	Funda- mental	Signif- icant	Merits Attention
Policy : Brought Forward	Good						
Supporting People - Contracts		0	0	1	0	0	1
External Funding - Neighbourhood Involvement Programme		0	6	0	0	5	0
BVPI's 14 & 15 - Ill Health & Early Retirement (Follow Up)		0	1	1	0	1	1
BVPI's 16 & 17 - Disabled Employees (Follow Up)		0	2	0	0	2	0
BVPI 12 - Sickness Monitoring (Follow Up)		0	1	1	0	1	1
Social Services : Brought Forward							
Children centres – Record keeping (Investigation)		0	4	2	0	3	2
Social Services : Current Year							
Theft of Petty cash (Investigation)		0	0	3	0	0	3
IT Audit: Brought Forward							
Web Browsing (Follow Up)		0	0	0	0	0	0
Newsgroup Postings (Follow Up)		0	0	0	0	0	0
HR/Payroll Project Assurance	0	0	0	0	0	0	
<u>Total Recommendations Made – Final reports</u>		0	83	140	0	78	133