



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
6 APRIL 2006**

ITEM 5

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 18 November 2005 to 14 March 2006 and to comment accordingly.
- 1.2 To note the changes made to the 2005/6 internal audit plan.
- 1.3 To determine which if any audit report should be subject to a follow up report to the June 2006 Audit and Accounts Committee meeting.

SUPPORTING INFORMATION

- 2.1 This report summarises the internal audit work completed in the period 18 November 2005 to 14 March 2006, identifies changes required to the internal audit plan and seeks a decision by the Committee to determine the audit reports it wishes to review in more detail at the meeting in June 2006.

Summary of internal audit activity – 18 November 2005 to 14 March 2006

- 2.2 Appendix 2 summarises the output of internal audit for the period. During the period, a final report for one audit review that commenced before April 2005 was issued. This leaves 4 “brought forward” audits to be finalised. In respect of audits that commenced from April 2005, the current year, a further 17 audits have been completed. There are a further 40 audits where the fieldwork had been completed by mid-March and the files were either awaiting review by the Group Auditors (19 audits), reviewed but the draft report had yet to be issued (7 audits) or issued in draft with the manager’s response pending (14 audits). A verbal update on the status of these audits will be provided at the meeting.
- 2.3 Appendix 3 provides full details of the number of recommendations in each category by audit for all final reports issued in the period. Table 1 provides a summary of the number of recommendations made by Internal Audit and those accepted by Management for all completed audits.

Table 1: Classification of Classification of Recommendations Made

	Fundamental	Significant	Merits Attention
Recommendations Made	2	26	75
Recommendations Accepted	2	26	72

- 2.4 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:
- demonstrates that they have insufficient resources to meet the control recommended i.e. the introduction of separation of duties in a system requires additional resources or are able to demonstrate limitations in the system used that prevent the suggested control from being addressed
 - agrees with the issue raised by the auditors, but not the course of action recommended
 - demonstrates that there are compensating controls within the system that reduce the risks.
- 2.5 Appendix 3 also provides details of Internal Audit's overall opinion on the adequacy of the level of internal control for each system reviewed in the period. Table 2 below provides an analysis of audit opinion on the system of control. The Head of Audit and Risk Management will also brief members further on the main issues relating to each completed audit.

Table 2: Overall Audit Opinion in Final Reports issued in the period 18 November 2005 to 14 March 2006 , by Department.

Department	Good	Satisfactory	Marginal	Unsatisfactory	Unsound	No Opinion	Total
Finance	2					6	8
Contract Audit							
Dev & Cultural Services						1	1
Governance							
Commercial Services							
Schools			1	1		1	3
Education							
Social Services							
Policy						1	1
IT Audit		1		1		1	3
Total	2	1	1	2		10	16

Note: No opinion includes all investigation work, audit work using IDEA auditing software to extract data from systems and audits providing advice on controls and systems where no report was written.

- 2.6 As a general policy, all audits rated as “unsound” or “unsatisfactory” will be brought to the Committee’s specific attention. Members should therefore note from Appendix 3 that the audit reviews of Disaster Recovery and Dale Community Primary School have been rated as “unsatisfactory”. The Disaster Recovery audit also raised two fundamental control weaknesses. The Committee can be briefed further on these audits as necessary.
- 2.7 In the case of “unsound” or “unsatisfactory” school audits the issues are primarily ones for the governing body and should not be called in. It is proposed, however, that the Corporate Director for Children and Young People should report back to the Committee on the control issues raised in these audits and the progress being made by the school to implement the necessary improvements. Internal audit also asks 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 will be reported back to this Committee.

Changes to the 2005/6 Internal Audit Plan

- 2.8 The audit plan is a flexible document and it is inevitably subject to some changes during the year as a result of emerging issues and changes in staffing resources. Members will note in Appendix 2 that the number of “audit jobs” for 2005/6 has decreased from 95 to 85. This shows the net effect of new jobs added in and planned jobs removed.
- 2.9 Audit has a finite staffing resource. With the departure of two members of staff, requests for additional work and changes or upgrades to systems that are due for audit, we have had to review the audit plan and make amendments to the remaining planned audits. This has taken the form of reducing audit coverage in a specific area or postponing the audits to the following year. To balance the available resources for the final quarter of 2005/6, it has been necessary to postpone several planned audit areas. Audit has also been asked by managers to postpone specific audit areas because of changes currently taking place in those areas. Those changes made to the audit plan, in addition to those reported to the Committee meeting on 8 December 2005, are detailed in Appendix 4.
- 2.10 All of the jobs removed from the 2005/6 Plan were listed as Priority 2 reviews. All of these reviews are included in the 2006/7 Audit Plan.

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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 18 Nov 05 to 14 March 06 – By Audit Appendix 4 – Changes to 2005/6 Audit Plan

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 – 2005/6 Audit Reviews

Current Year	No. of Jobs	Actual to 18 November 2005							Total
		Not Allocated	Allocated	Started	Awaiting Review	Reviewed	Draft Report	Final Report	
Contract Audit	2	1			1				2
Development & Cultural Services	9	2	1	4	1			1	9
Education	24	12	2	3	4	1		2	24
Finance	23	5	5	6	3			4	23
Corporate Governance	2			2					2
Derby Homes	6	3	1	2					6
IT Audit	7		2	2	2		1		7
Commercial Services	3	3							3
Policy	2			1				1	2
Fire Authority	5	2		2				1	5
Social Services	7	4		1	1			1	7
Corporate Services	2			1	1				2
External Bodies	3	1		1				1	3
TOTAL	95	33	11	25	13	1	1	11	95

Current Year	No. of Jobs	Actual 1 April 2005 to 14 March 2006							Total
		Not Allocated	Allocated	Started	Awaiting Review	Reviewed	Draft Report	Final Report	
Contract Audit	1					1			1
Development & Cultural Services	7			3	2			2	7
Education	24			4	14		1	5	24
Finance	23			2	2	3	5	11	23
Corporate Governance	2			2					2
Derby Homes	6			2		2	1	1	6
IT Audit	6			2			1	3	6
Commercial Services									
Policy	3						1	2	3
Fire Authority	5			1			2	2	5
Social Services	3			1	1			1	3
Corporate Services	3					1	2		3
External Bodies	2						1	1	2
TOTAL	85			17	19	7	14	28	85

Internal Audit Output – Brought Forward Work

B/Fwd	No. of Jobs Planned	Actual to 18 November 2005							
		Not Allocated	Allocated	Started	Awaiting Review	Reviewed	Draft Report	Final Report	Total
Contract Audit	1							1	1
Development & Cultural Services	2							2	2
Education	12							12	12
Finance	13				1		1	11	13
Corporate Governance	4						1	3	4
Derby Homes	8							8	8
IT Audit	4							4	4
Commercial Services	2							2	2
Policy	7							7	7
Fire Authority	5							5	5
Social Services	5				1	1		3	5
Corporate Services									
External Bodies	1							1	1
B/FWD TOTAL	64				2	1	2	59	64

B/Fwd	No. of Jobs Planned	Actual 1 April 2005 to 14 March 2006							
		Not Allocated	Allocated	Started	Awaiting Review	Reviewed	Draft Report	Final Report	Total
Contract Audit	1							1	1
Development & Cultural Services	2							2	2
Education	12							12	12
Finance	13				1			12	13
Corporate Governance	4						1	3	4
Derby Homes	8							8	8
IT Audit	4							4	4
Commercial Services	2							2	2
Policy	7							7	7
Fire Authority	5							5	5
Social Services	5				1	1		3	5
Corporate Services									
External Bodies	1							1	1
B/FWD TOTAL	64				2	1	1	60	64

Recommendations Made and/or Accepted in Final Audit Reports Issued in the period 18 November 2005 to 14 March 2006 – By Audit

Job Name	Overall control rating	Recommendations Made			Recommendations Accepted		
		Funda- mental	Signif- icant	Merits Attention	Funda- mental	Signif- icant	Merits Attention
Development & Cultural: Current Year							
Interreg IIIB – interim claim 31/12/05	N/A						
Finance: Brought forward							
Debtors – Central Function	Good	0	0	14	0	0	13
Finance: Current Year							
National Fraud Initiative	N/A						
Creditors – Cheque Requisitions	N/A						
Creditors – IDEA Tests and samples	N/A						
Council Tax - Valuation	Good	0	1	4	0	1	4
NNDR – IDEA Tests and samples	N/A						
Payroll – IDEA Tests and samples	N/A						
Accounting Systems – Payroll Control Accounts	N/A						
Schools : Current Year							
Investigation – Sinfin Community School	N/A	0	1	6	0	1	6
Dale Community Primary	Unsatisfactory	0	11	31	0	11	31
Murray Park	Marginal	0	7	18	0	7	16
IT Audit: Current Year							
Data Protection Procedures	Satisfactory	0	6	2	0	6	2
Disaster Recovery	Unsatisfactory	2	0	0	2	0	0
HR/Payroll Project assurance	N/A						
Policy : Current Year							
Derby Community Safety Partnership - advice	N/A						
<u>Total Recommendations Made – Final reports</u>		2	26	75	2	26	72

This Appendix does not include reports issued in respect of Internal Audit's external contracts.

Where audit reports were issued in support of work which was of a direct support rather than review nature, such reports are shown as “N/A” for the overall control rating in the table

Changes to the Internal Audit Plan 2005/6

Jobs removed from Plan	
Dept	Job Details
	Contract Procedure Rules Building Control Decriminalisation of Parking Waste Disposal Home/Remote Working Electronic Invoicing Business processes Fleet management Children In Foster care Voluntary Sector Liaison & Funding Child Protection Adult establishments CLASP
New Audit Jobs not in 2005/6 Original Audit Plan	
Job No	Job Details
	Interreg IIIB Derby Community Safety Partnership Payment of Utility Bills