



South Derbyshire District Council – Internal Audit Progress Report

Audit Sub-Committee: 19th February 2014



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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Summary

Role of Internal Audit

The Internal Audit Service for South Derbyshire District 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 Sub-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 Limited assurance assessment will be highlighted to the Audit Sub-Committee in Audit's progress reports.

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Audit Coverage

Progress on Audit Assignments

The following table provide Audit Sub-Committee with information on how audit assignments were progressing as at 31st January 2014.

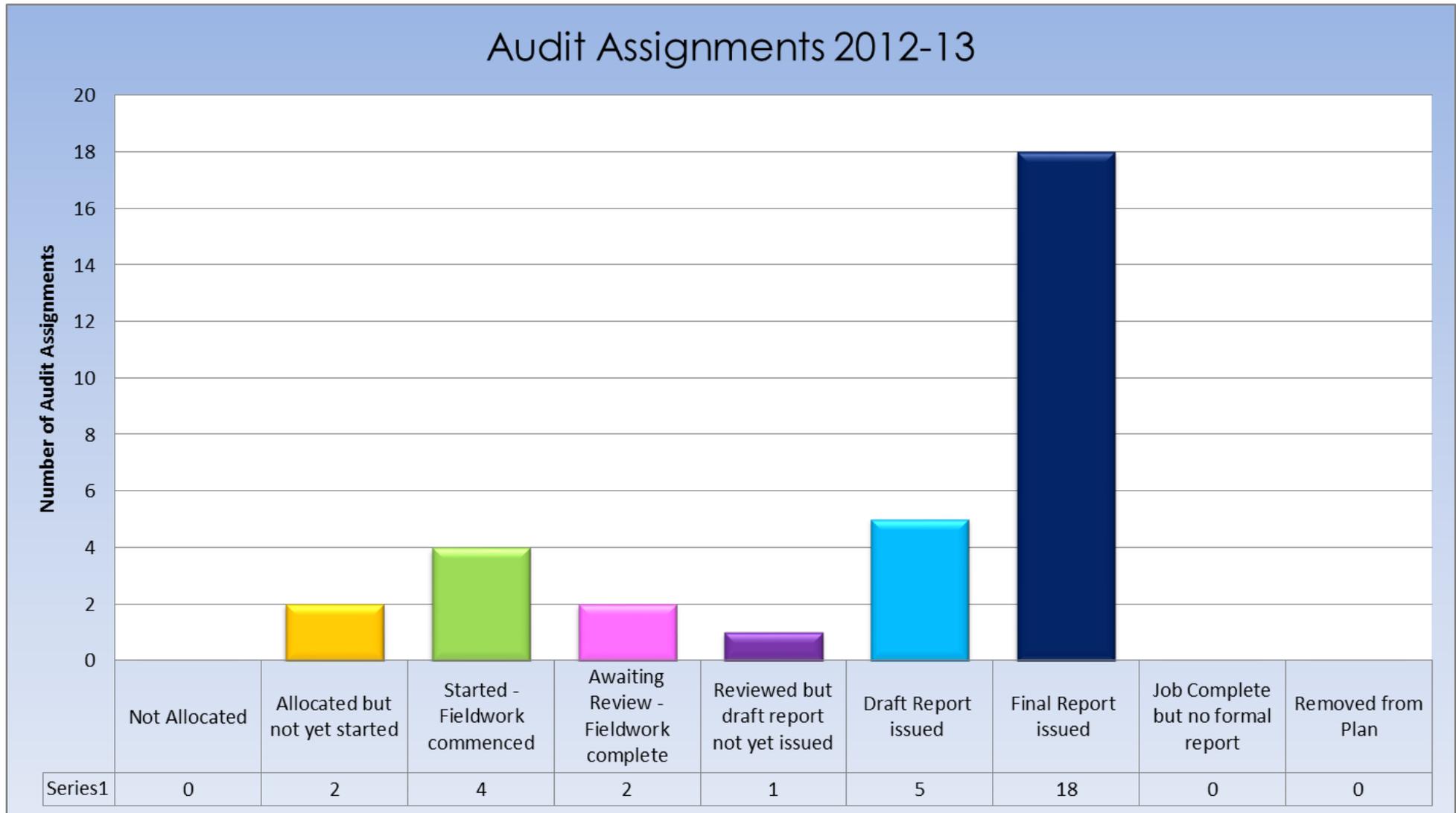
2013-14 Audit Plan Assignments	Type of Audit	Current Status	% Complete
Main Accounting System 2013-14	Key Financial System	Draft Report	95%
Treasury Management 2013-14	Key Financial System	In Progress	65%
Capital Programme	Systems/Risk Audit	Final Report	100%
Council Tax / NNDR / Cashiering 2013-14	Key Financial System	Draft Report	95%
Housing & Council Tax Benefit 2013-14	Key Financial System	Draft Report	95%
Payroll 2013-14	Key Financial System	Final Report	100%
Creditors / Debtors 2013-14	Key Financial System	In Progress	35%
Virtualisation Management	IT Audit	In Progress	75%
Orchard IT Security	IT Audit	In Progress	70%
Client Monitoring - Corporate Services Contract	Systems/Risk Audit	Final Report	100%
Data Protection & Freedom of Information	Governance Review	Allocated	5%
Records Management	Governance Review	Final Report	100%
Data Quality 2013-14	Governance Review	Draft Report	95%
Business Continuity & Emergency Planning	Governance Review	Allocated	10%
Fixed Assets 2013-14	Key Financial System	Final Report	100%
Rent Accounting 2013-14	Systems/Risk Audit	Awaiting Review	80%
Tenants Arrears	Systems/Risk Audit	Awaiting Review	80%
B/Fwd - Treasury Management / Insurance 2012-13	Key Financial System	Final Report	100%
B/Fwd - Email & Internet Services Health-check	IT Audit	Draft Report	95%
B/Fwd - Service Contracts	Procurement/Contract Audit	Reviewed	90%

Twelve assignments (not shown above) were finalised and reported upon at the June, September and December 2013 Audit Sub-Committee meetings.

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Audit Coverage

Progress on Audit Assignments Chart



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Audit Coverage

Completed Audit Assignments

Between 1st December 2013 and 31st January 2014, the following audit assignments have been finalised since the last Progress Report was presented to this Committee:

- Capital Programme.
- Payroll 2013-14.
- Client Monitoring - Corporate Services Contract.
- Fixed Assets 2013-14.
- Treasury Management 2012-13.
- Records Management.

The following paragraphs summarise the internal audit work completed in the period.

Capital Programme

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing the Capital Programme to provide assurance that systems were operating effectively over the following control objectives:

- All capital schemes have been approved for inclusion in the Capital Investment and Financing Programme.
- Capital schemes have been prioritised in line with the Council's Medium Term Financial Plan and the Capital Investment and Financing Programme.
- Progress against the Capital Investment and Financing Programme has been adequately monitored.

From the 31 key controls evaluated in this audit review, all 31 were considered to provide adequate control and none contained weaknesses. Accordingly, no recommendations were made.

Payroll 2013-14

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing the Payroll operations to provide assurance that systems were operating effectively over the following control objectives:

- New starters are set up on the payroll system promptly, accurately and on receipt of an authorised instruction.
- Leavers are removed promptly from the payroll system on receipt of an authorised instruction.
- Allowances and deductions paid in addition to salaries are in accordance with agreed procedures, are adequately approved and supported by sufficient evidence.

From the 7 key controls evaluated in this audit review, all 7 were considered to provide adequate control and none contained weaknesses. Accordingly, no recommendations were made.

Client Monitoring – Corporate Services Contract

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing the client monitoring of the Corporate Services Contract to provide assurance that systems were operating effectively over the following control objectives:

- Governance arrangements around contract monitoring are robust and fulfil their purpose.
- The Council have adequate quality control methods in place over functions performed by Northgate and that these provide adequate monitoring of business critical systems, such as revenues and benefits.

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- Contract monitoring is taken at appropriate levels within the Council in order to validate data quality and service reports.
- Follow up procedures for contract failures / declining performance are adequate and operating effectively.

From the 24 key controls evaluated in this audit review, all 24 were considered to provide adequate control and none contained weaknesses. Accordingly, no recommendations were made.

Fixed Assets 2013-14

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing controls over fixed asset movements in relation to acquisitions, transfers and disposals. It also sought to evaluate controls which ensure assets are included in a revaluation rolling programme and that assets are physically verified to confirm their existence.

From the 19 key controls evaluated in this audit review, 16 were considered to provide adequate control and 3 contained weaknesses. The report contained 2 recommendations, both of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- There was a lack of cross referencing to source authorisation documents making it difficult to verify that all movements on the asset register had been properly authorised. (Low Risk)
- The password configuration for access to the Fixed Asset Register was weak and all user groups had been granted permissions to read, write, execute or modify the document. (Low Risk)

Both of the control issues raised within this report were accepted and positive action had already been taken to address both the issues by the end of the audit.

Treasury Management 2012-13

Overall Control Assurance Rating: **Comprehensive**

This audit focused on Treasury Management policies, investments, the Prudential Code and the Council's management and monitoring arrangements for Treasury Management. The Council did not undertake any temporary borrowings during 2012/13 due to high levels of reserves and capital receipts. Therefore no detailed testing was performed on temporary borrowings during this audit.

From the 32 key controls evaluated in this audit review, 30 were considered to provide adequate control and 2 contained weaknesses. The report contained 2 recommendations, both of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- The office manual was not clear on individual roles and responsibilities when conducting Treasury Management transactions. Accordingly, an appropriate separation of duties was not specified. (Low Risk)
- The Treasury Management Office Manual was not dated or version controlled. (Low Risk)

Both control issues within this report were accepted, one had been addressed before the audit had concluded and positive action to address the remaining issue has been agreed to be taken by 1st April 2014.

Records Management

Overall Control Assurance Rating: **Reasonable**

This audit focused on the adequacy of the Council's records management policies and procedures. This review does not include electronic records management which is included as part of the five year strategic audit IT plan.

From the 20 key controls evaluated in this audit review, 15 were considered to provide adequate control and 5 contained weaknesses. The report contained 4 recommendations, both of which were

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considered a low risk. The following issues were considered to be the key control weaknesses:

- The Council did not have a Records Management policy in place. (Moderate Risk)
- There was no procedural guidance in place for Records Management. (Low Risk)
- The Council have not addressed the issue of Data Classification. (Low Risk)
- Records were being held off-site as part of arrangements made by the Council. However, the age, nature and quantity of records being held could not be confirmed, as there were no logs available in all cases. (Low Risk)

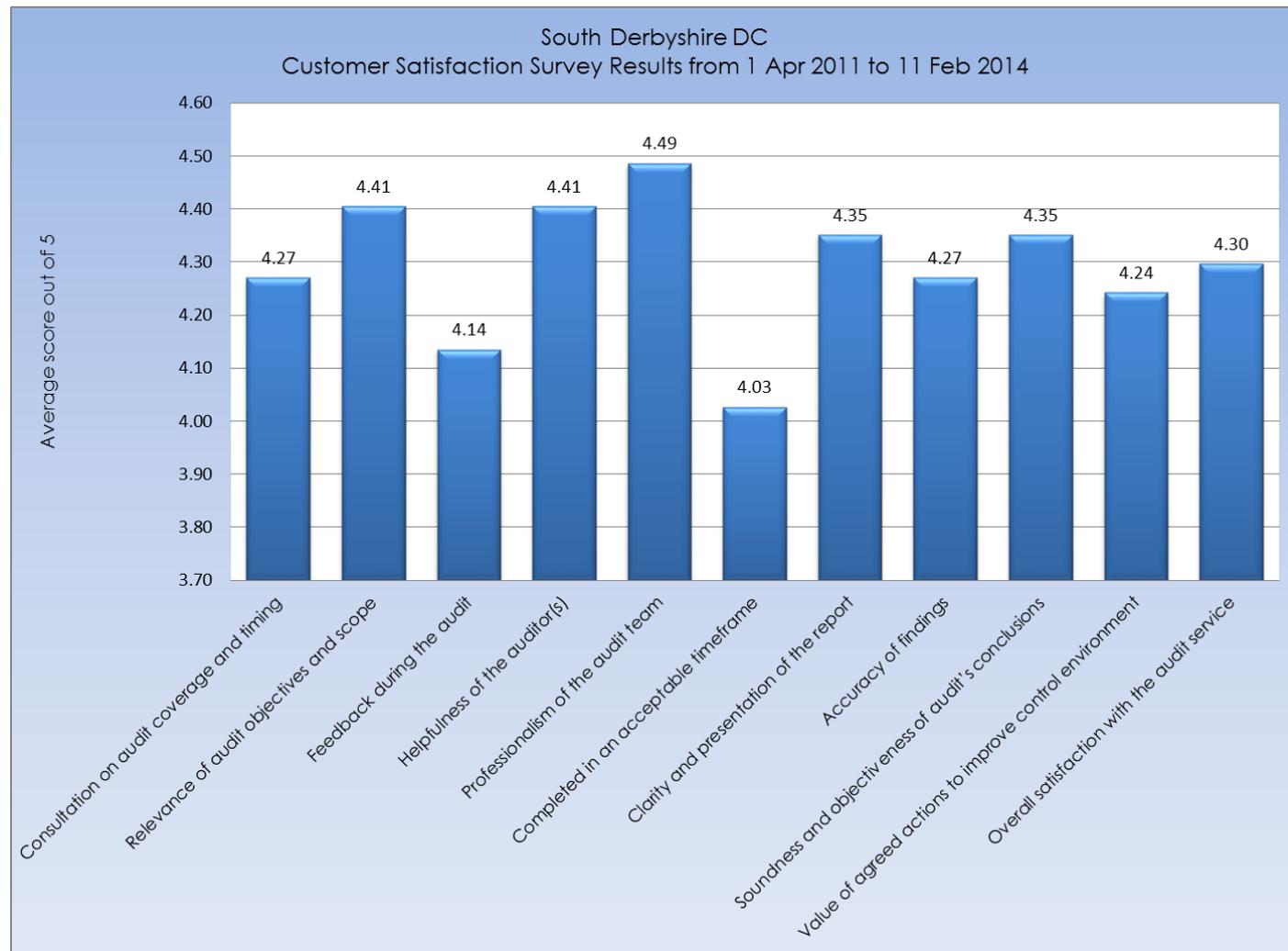
All four control issues within this report were accepted, one was scheduled for implementation by 30th April 2014 and three had been agreed to be implemented by 31st May 2014,

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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 37 responses received between 1st April 2011 and 11th February 2014. The overall average score from the surveys was 47.2 out of 55. The lowest score received from a survey was 40, whilst the highest was 55 which was achieved on 2 occasions.



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Audit Performance

Customer Satisfaction

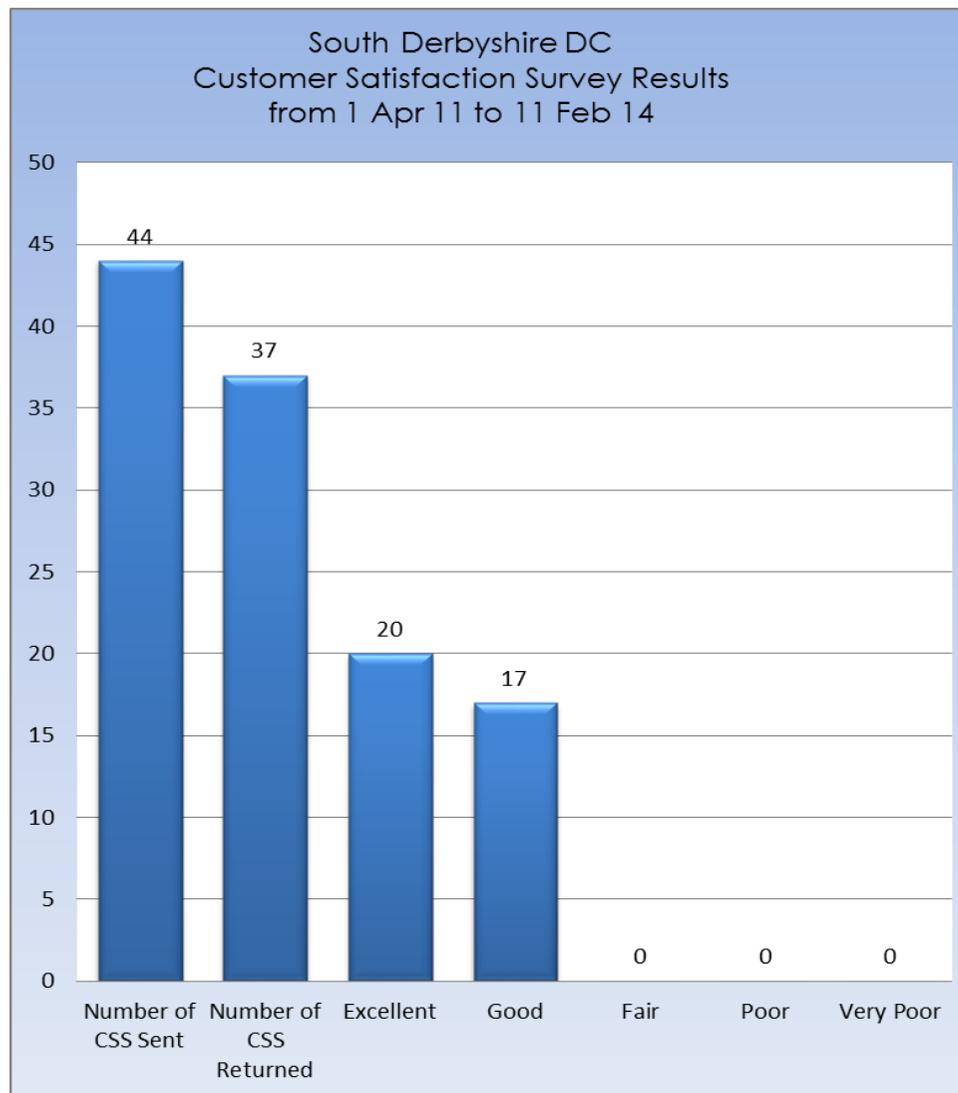
Since 1st April 2011, we have sent 44 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 44 sent we have received 37 responses.

All Customer Satisfaction Surveys have been returned apart from 7 surveys which have already been reported to this Committee and relate to assignments undertaken in previous plan years. Responses to these surveys will no longer be pursued as responses are unlikely to be reliable after this length of time.

The overall responses are graded as either:

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

Overall 20 of 37 responses categorised the audit service they received as excellent, another 17 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



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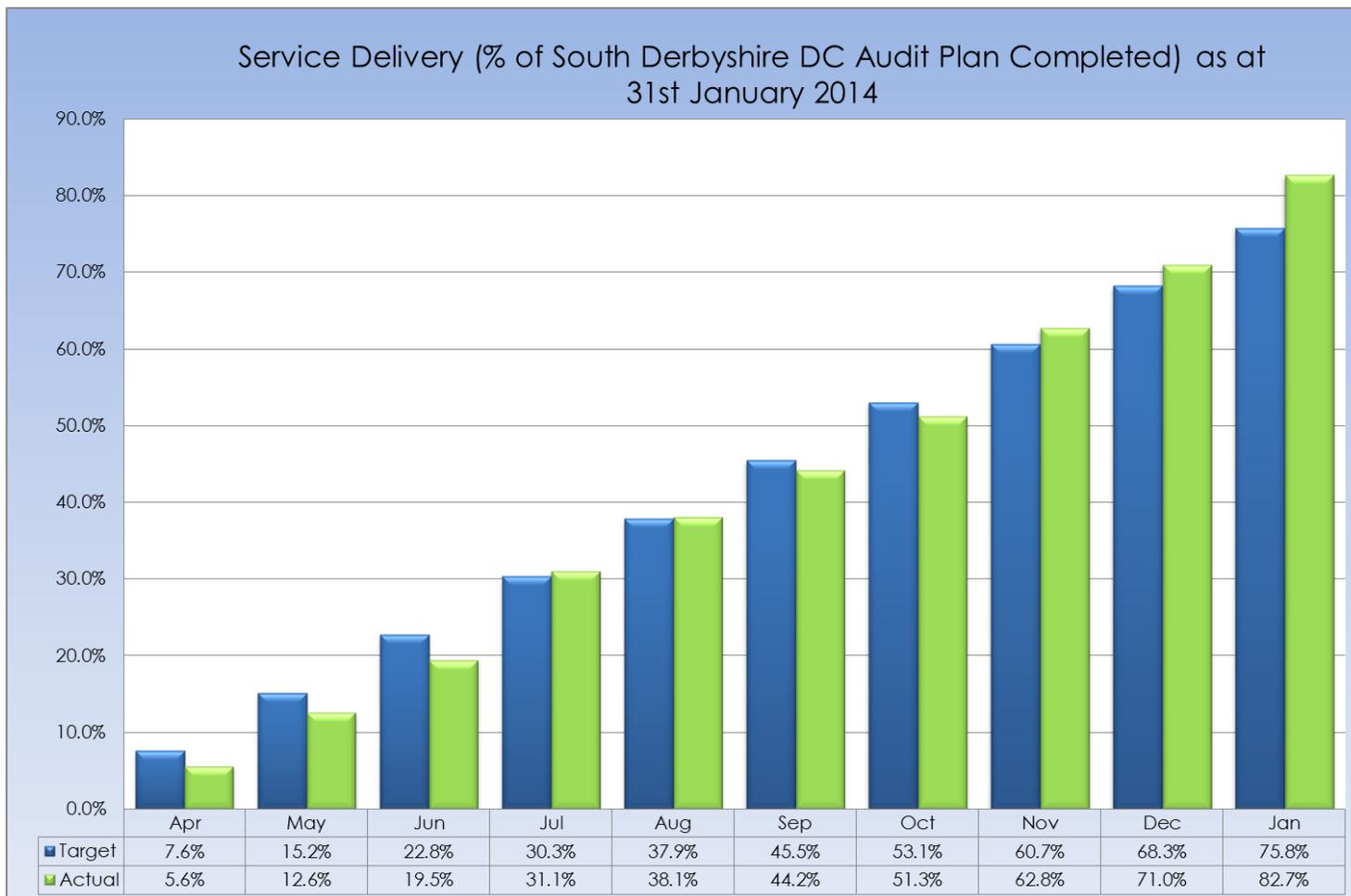
Audit Performance

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 South Derbyshire's 2013-14 Audit Plan (including incomplete jobs brought forward) after 10 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 sends emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We request an update on each recommendation's implementation status, which is fed back into the database, along with any revised implementation dates.

Prior to the Audit Sub-Committee meeting we will provide the relevant Senior Managers with details of each of the recommendations made to their divisions 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** = Audit have been unable to ascertain any progress information from the responsible officer or it has yet to reach its agreed implementation date.
- **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.
- **Risk Accepted** = Management has decided to accept the risk that Audit has identified and take no mitigating action.
- **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).

Implementation Status Details

The table below is 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 that have passed their agreed implementation dates.

	Implemented	Being implemented	Risk Accepted	Superseded	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	137	14	3	3	1	9	167
Moderate Risk	33	2	0	3	0	2	40
Significant Risk	8	0	1	0	0	0	9
Critical Risk	0	0	0	0	0	0	0
	178	16	4	6	1	11	216

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

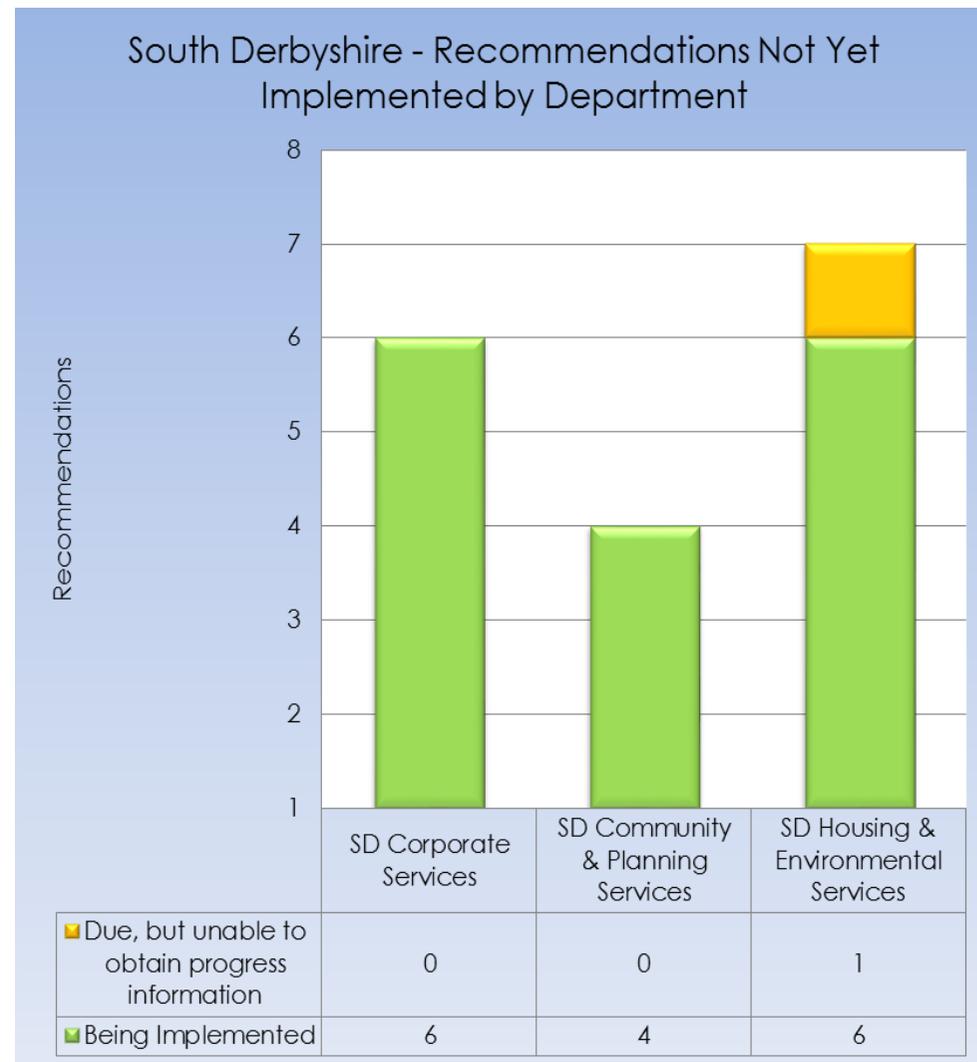
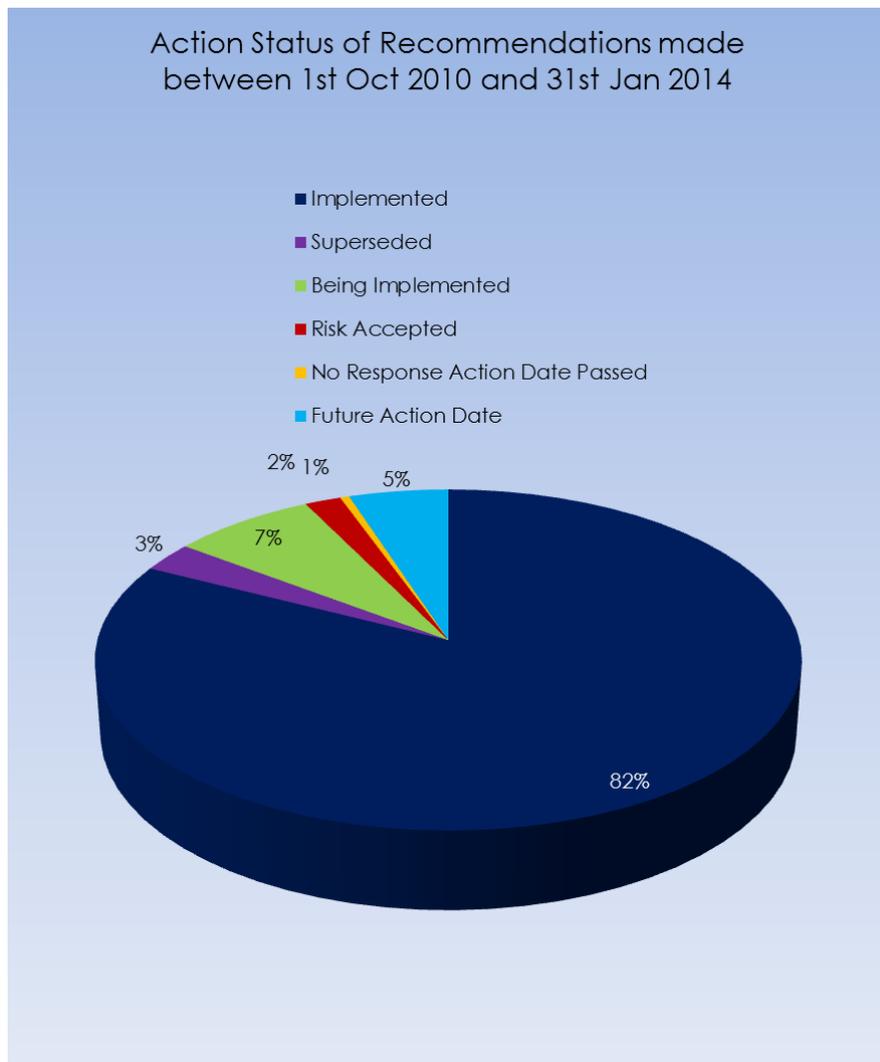
Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being implemented	6	4	6	16
Due, but unable to obtain progress information	0	0	1	1
	6	4	7	17

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 each recommendation where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). The 4 recommendations shown above, where management has chosen to accept the risk, have already been reported to this Committee.

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Recommendation Tracking

Implementation Status Charts



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Recommendation Tracking

Recommendations Not Yet Implemented

Corporate Services

Car Allowances

Control Issue - A neighbouring Authority has revised its car user allowance scheme and introduced a new scheme which has removed the essential user lump sum and pays one mileage rate to both types of user. This will enable the Authority to make significant savings in future years.

Risk Rating – Low Risk

Status Update - Following the Budget Round for 2013/14 and the recent Council Restructure, it is anticipated that the Single Status Steering Group will be reconvened later in 2014. This item will be considered, as planned, as part of the pay and grading review. However, any proposals are unlikely to be implemented this financial year.

Original Action Date 30 Jun 11 **Revised Action Date** 31 Mar 14

Risk Management

Control Issue - There was not a documented policy or procedure for reporting and management of incidents.

Risk Rating – Low Risk

Status Update – The Director of Finance and Corporate Services stated on 20 November 2013 that a procedure is currently being drawn up for implementation relating to the reporting and investigation of Health/Safety/Security incidents and near misses. This will be completed by January 2014. This will then be expanded to include property and data incidents by February 2014.

Original Action Date 31 Mar 13 **Revised Action Date** 28 Feb 14

Council Tax / NNDR / Cashiering 2012-13

Control Issue - The safe could be accessed by any one of several officers, with no single officer being accountable for the safe contents.

Risk Rating – Low Risk

Status Update - A tamper proof book is now used into which the contents of the safe and cash bags are logged. The remaining proposals would mean someone staying on beyond their contracted hours to deal with the close of business work. We will look at allowing a bit of time beyond closure time for taking payments to then deal with the end of day stuff.

Original Action Date 15 Jul 13 **Revised Action Date** 15 Apr 14

Legal & Democratic Services

Control Issue - Purchase orders were not being raised for goods and services required in respect of running the election.

Risk Rating – Low Risk

Status Update - Going forward we will now be raising purchase orders for all ordering. This was not undertaken for the County Council elections but will be undertaken going forward. The Elections process has recently been subject to an independent review commissioned by the Chief Executive. Changes to reporting lines have been made and a report will be considered by the Finance and Management Committee.

Original Action Date 30 Nov 12 **Revised Action Date** 31 Mar 14

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Procurement

Control Issue – Systems and procedures were not in place for monitoring Procurement activity against the Contracts Register.

Risk Rating – Low Risk

Status Update – All parts of this rec, but one, have been implemented. The remaining part, to publish extracts from the Contracts Register on the Council's website or intranet should be implemented during February.

Original Action Date 1 Dec 13 **Revised Action Date** 28 Feb 14

Corporate Governance

Control Issue – The Member and Officer Relations protocol document did not include the responsibility of officers to provide training and development to Members and to respond in a timely manner to queries raised by Members. The document had not been reviewed since 2003.

Risk Rating – Low Risk

Status Update – This will be included in a wider review of the whole Constitution to bring it up to date.

Original Action Date 1 Feb 14 **Revised Action Date** 31 May 14

Housing & Environmental Services

Housing Allocations

Control Issue - The Homefinders guidance informed applicants who disagreed with the banding allocated to them, that there was a Right to a Review leaflet, but no such document existed.

Risk Rating – Low Risk

Status Update - Per the Council's website, the consultation on the Homefinders Allocation policy has just closed and a new policy is to be published soon. The revised publication date for the Homefinders guidance is the end of August 2014

Original Action Date 1 Feb 14 **Revised Action Date** 15 Sep 14

Control Issue - A lack of control over tenancy bid documentation meant that a bid could accidentally, or even deliberately not be input to the system.

Risk Rating – Low Risk

Status Update -

Original Action Date 1 Nov 13 **Revised Action Date**

Control Issue - Unsuccessful applicants are not notified of the reason why their bids for tenancies have failed. Without knowing why they have been unsuccessful, applicants may continue to bid for inappropriate properties.

Risk Rating – Low Risk

Status Update - Partially complete. With numbers of bidders now available on Homefinders. Still to be determine how number of successful bidders will be communicated.

Original Action Date 1 Feb 14 **Revised Action Date** 31 Mar 14

Housing Repairs

Control Issue - The Mutual Repairs Policy had not been established, although it was referred to in the Repairs Policy.

Risk Rating – Low Risk

Status Update - The policy was prepared in draft in March 2012, but the original responsible officer was moved temporarily, then permanently, onto higher priority work. Further delays have occurred as it was decided that it would be incorporated into the Leaseholder policy, which was going out to consultation at the end of Jan 2014.

Original Action Date 30 Jun 11 **Revised Action Date** 31 Mar 14

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Waste Management

Control Issue - There was no documentation maintained on file in the form of competitor quotes which supported the negotiated, best price offered by the Council.

Risk Rating – Low Risk

Status Update - A review is to take place of the trade refuse service from a business viability viewpoint. If special rates/discounted prices are to continue within the service then there will be a robust procedure for dealing with this.

Original Action Date 1 Apr 13 **Revised Action Date** 28 Feb 14

Control Issue - There were no documented guidelines available for employees to refer to when negotiating a special price for trade waste. This meant that decisions were based on the employees personal judgement and discretion.

Risk Rating – Low Risk

Status Update – A review is to take place of the trade refuse service from a business viability viewpoint. As a temporary measure, staff have been instructed to only arrange new trade refuse contracts on our current fixed charge and that no special rates will be negotiated.

Original Action Date 1 Apr 13 **Revised Action Date** 28 Feb 14

Control Issue - The Council was using historic maximum and minimum pricing parameters which had not been formally approved and may have no longer accurately reflected the latest prices in the trade waste collection market.

Risk Rating – Moderate Risk

Status Update - Due to a significant number of major service issues needing resolution, the timescale for this item needs to be changed. I have agreed a departmental work programme with Bob Ledger and the review of trade waste will take place following the implementation of the new kerbside recycling scheme in October. This should allow us time to

make the necessary improvements to trade refuse charging in time to implement with next year's fees and charges report.

Original Action Date 1 Apr 13 **Revised Action Date** 31 Dec 13

Community & Planning Services

Leisure Centres

Control Issue – Reports to the Council had not been provided in line with contractual requirements. The monthly Impact Reports contained too much details and it was not clear which data referred to the contractual performance measures.

Risk Rating – Low Risk

Status Update – The Culture & Community Manager stated on 7 February 2014 that he had discussed this at review meeting. Anticipate implementation after performance review and contract variation.

Original Action Date 30 Nov 13 **Revised Action Date** 14 Mar 14

Control Issue – The Leisure Management Contract was in draft form, despite Active Nation being in the third year of service delivery.

Risk Rating – Moderate Risk

Status Update – The Culture & Community Manager stated on 7 February 2014 that a revised and final contract has been sent by the Council to AN solicitors. AN solicitors requested a moved deadline as the solicitor dealing was off most of December. They still haven't delivered, so the Council's solicitors have been asked to chase and press for a response.

Original Action Date 25 Oct 13 **Revised Action Date** 14 Mar 14

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Control Issue – A number of issues were identified with the performance measures and indicators and as a result, performance was not being monitored in line with the contract.

Risk Rating – Low Risk

Status Update – The Culture & Community Manager stated on 7 February 2014 that the relevant officer has been unavailable to progress whilst "seconded" to work on a bid for another contract. However, he has now returned to work on this contract and we have had an initial review where we agreed the basics of changes to the KPIs. We are now in the midst of follow up work further to reconvening on Feb 24th at the scheduled annual performance review at which the performance related contract payment will be discussed.

Original Action Date 30 Nov 13 **Revised Action Date** 14 Mar 14

Control Issue - Some data within the Impact Report for April 2012 was found to be inaccurate. Active Nation had not documented the methodology for calculating the performance figures or the source of data. There was a lack of internal checks at Active Nation on the reported figures and methods of calculation. Where data was incorrect, it had not been amended in the following periods.

Risk Rating – Low Risk

Status Update - The Culture & Community Manager stated on 7 February 2014 that this was discussed at KPI review meeting and formal request will form part of contract variation that will follow the annual performance review. Sample checking support from accountancy already requested and agreed.

Original Action Date 31 Oct 13 **Revised Action Date** 14 Mar 14
