



South Derbyshire District Council – Internal Audit Progress Report

Audit Sub-Committee: 25th September 2013



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.

Contacts

Richard Boneham
Head of the Audit Partnership
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643280
richard.boneham@derby.gov.uk

Adrian Manifold
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643281
adrian.manifold@centralmidlands
audit.gov.uk

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1 Summary

Role of Internal Audit

The Internal Audit Service for South Derbyshire District Council is now 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 CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006). CMAP also adheres to the Internal Audit Terms of Reference.

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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2 Audit Coverage

Progress on Audit Assignments

The following audit assignments are progressing at the moment. Another 6 planned assignments have been allocated, but are yet to commence and another 3 have yet to be allocated.

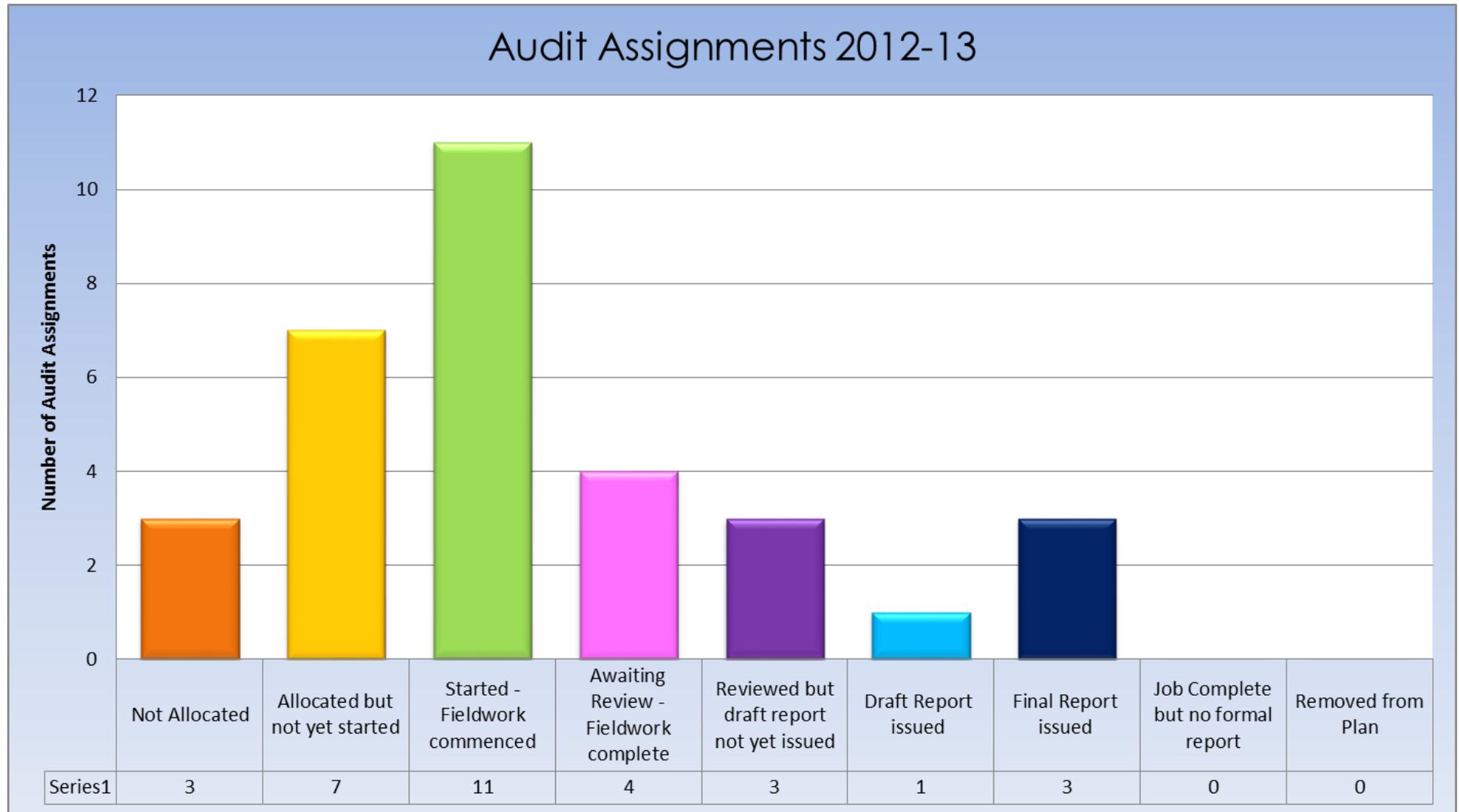
2013-14 Audit Plan Assignments	Type of Audit	Current Status	% Complete
Capital Programme	Systems/Risk Audit	In Progress	40%
VAT	Systems/Risk Audit	Draft Report	95%
Housing & Council Tax Benefit 2013-14	Key Financial System	In Progress	15%
Procurement	Procurement/Contract Audit	Reviewed	90%
People Management	Systems/Risk Audit	Awaiting Review	80%
Corporate Governance	Governance Review	In Progress	75%
Virtualisation Management	IT Audit	In Progress	75%
Client Monitoring - Corporate Services Contract	Systems/Risk Audit	In Progress	30%
Records Management	Governance Review	In Progress	70%
Data Quality 2013-14	Governance Review	Allocated	10%
Leisure Centres	Systems/Risk Audit	In Progress	75%
Rent Accounting 2013-14	Systems/Risk Audit	In Progress	70%
Tenants Arrears	Systems/Risk Audit	In Progress	75%
Housing Allocations 2013-14	Systems/Risk Audit	Awaiting Review	80%
Tender Receipt & Opening	Investigation	Reviewed	90%
B/Fwd - Treasury Management / Insurance 2012-13	Key Financial System	Reviewed	90%
B/Fwd - Payroll / Officers Expenses & Allowances 2012-13	Key Financial System	Awaiting Review	80%
B/Fwd - Post Implementation Review - Agresso Upgrade	IT Audit	In Progress	70%
B/Fwd - Email & Internet Services Health-check	IT Audit	In Progress	55%
B/Fwd - Service Contracts	Procurement/Contract Audit	Awaiting Review	80%
B/Fwd - Council Tax / NNDR / Cashiering 2012-13	Key Financial System	Final Report	100%
B/Fwd - Housing & Council Tax Benefit 2012-13	Key Financial System	Final Report	100%

One assignment brought forward into this year's Audit Plan was finalised and reported upon at the June 2013 Audit Sub-Committee meeting.

2 Audit Coverage (Cont.)

Progress on Audit Assignments Chart

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2 Audit Coverage (Cont.)

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Completed Audit Assignments

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

- Council Tax / NNDR / Cashiering 2012-13.
- Housing & Council Tax Benefit 2012-13.

The following summarises the internal audit work completed in the period.

Council Tax / NNDR / Cashiering 2012-13

Overall Control Assurance Rating: **Reasonable**

This audit focused on providing assurance as to the adequacy of controls over the cashiering function, with focus on the interrelation with Council Tax, NNDR and the maintenance of the suspense account.

From the 47 key controls evaluated in this audit review, 32 were considered to provide adequate control and 15 contained weaknesses. The report contained 9 recommendations, all 9 of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- The use of a pool till with a generic login had been accepted by management, but the record of which officer was using this till at any one time was not in a format which could be retained for future resolution of queries. (Low Risk)
- The safe could be accessed by any one of several officers, with no single officer being accountable for the safe contents.
- There were no documented procedures on the operation and monitoring of the suspense account. (Low Risk)
- The records kept of transactions carried out on the suspense account were of varying quality and accuracy, with the potential

for duplication of efforts by members of staff. (Low Risk)

- Regular reviews of the suspense account were not taking place, so errors could creep into the transactions without detection. (Low Risk)
- Management reviews of the suspense account were not being annotated and the process had yet to be documented. (Low Risk)
- The reconciliation of refunds being produced through the bank account to those produced through the Academy Council Tax was not complete, and this was not uncovered by management checks. (Low Risk)
- The reliance on only one member of staff to complete the reconciliations between the cash receipting system and the Academy systems leaves the service at risk should that person become unavailable. (Low Risk)
- Unpaid or returned items were not being dealt with as promptly as they might and the records relating to these items were not always complete. (Low Risk)

All 9 of the control issues within this report were accepted and positive action had already been taken to address 1 of the recommendations, 6 were to be addressed by 15th July 2013, one by 31st July and the remaining recommendation was to be addressed by 2nd August 2013.

Housing & Council Tax Benefit 2012-13

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the processing of benefit claims, to provide assurance that benefits paid were in accordance with Department of Work and Pensions (DWP) guidelines and that measures to secure data and prevent errors and fraud were adequate.

From the 44 key controls evaluated in this audit review, 39 were considered to provide adequate control and 5 contained weaknesses. The report contained 4 recommendations, all 4 of which were considered a low risk. The following issues were considered to be the key

2 Audit Coverage (Cont.)

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control weaknesses:

- There was not a business continuity plan and disaster recovery plan in place which covered all aspects of activities. (Low Risk)
- There were no checks to ensure that the right number of income streams had been included in calculating benefits due. (Low Risk)
- The claim history of a claimant had not been taken into account when assessing their latest application. (Low Risk)
- Council Tax records had not been correctly updated following changes to households. (Low Risk)

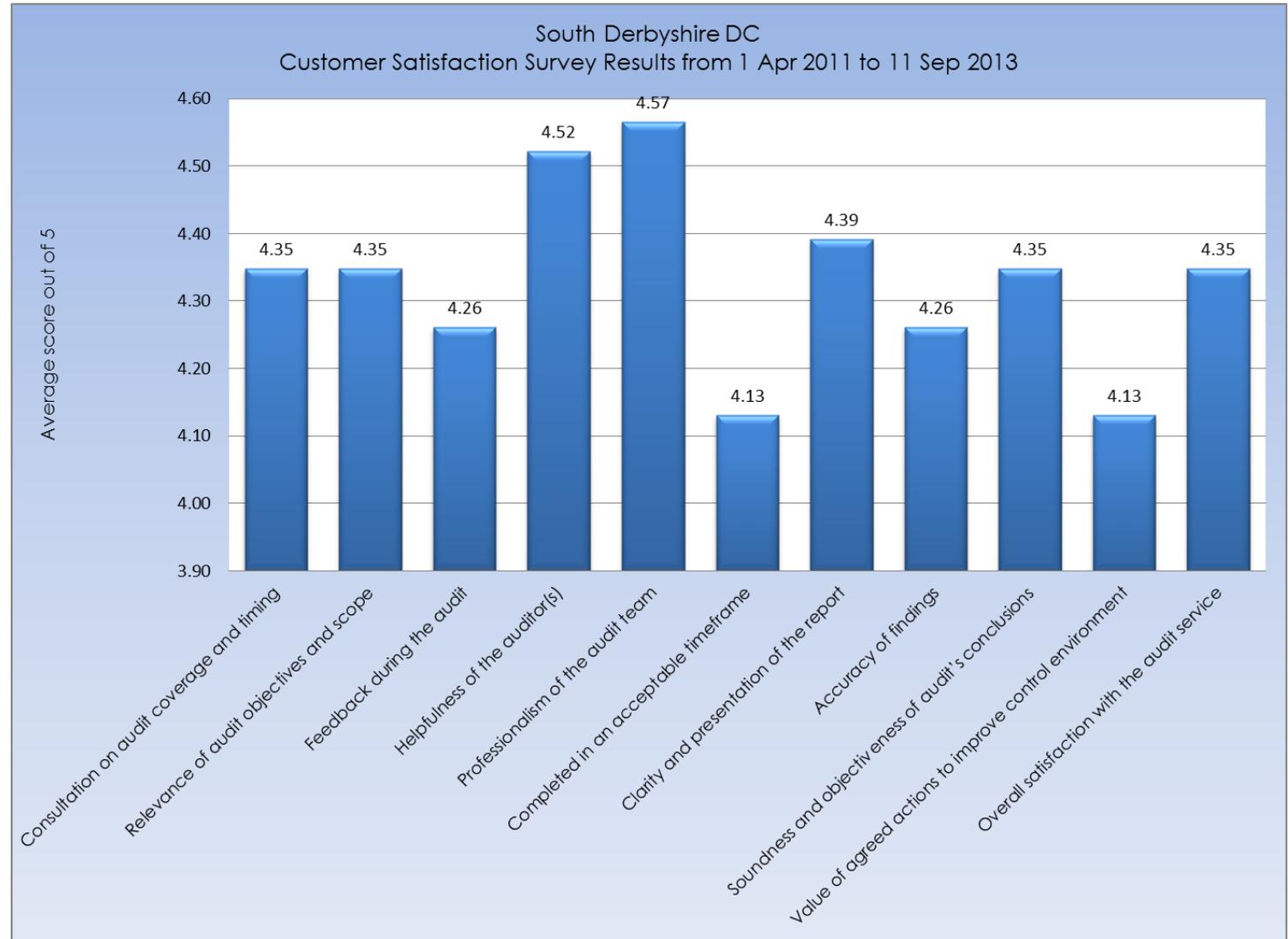
All 4 control issues raised in this report were accepted and positive action was to be taken to address 3 recommendations by 1st July 2013 and the remaining recommendation was to be addressed by 31st October 2013.

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3 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 23 responses received between 1st April 2011 and 11th September 2013. The overall average score from the surveys was 47.7 out of 55. The lowest score received from a survey was 42, whilst the highest was 55.



3 Audit Performance (Cont.)

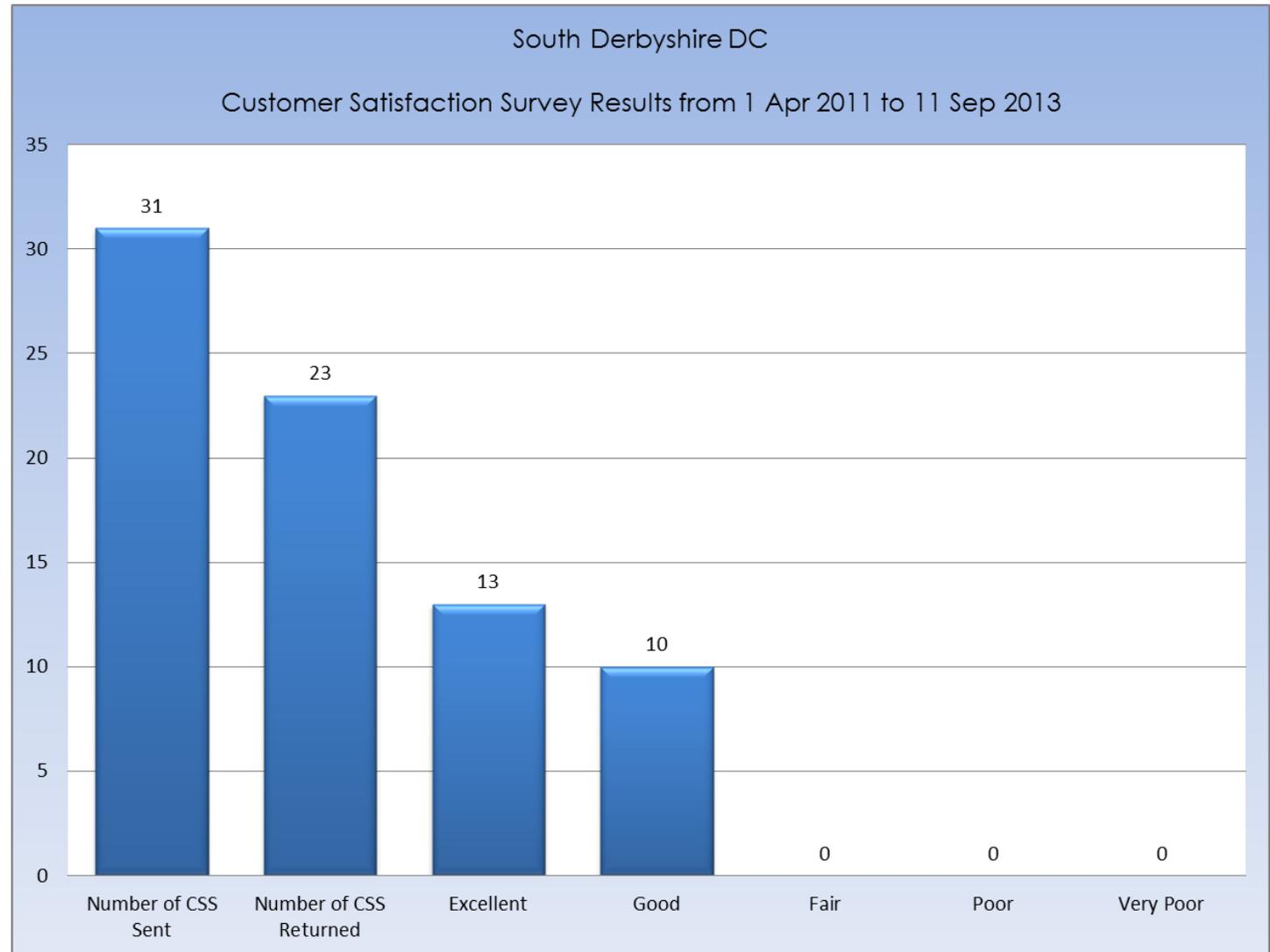
Customer Satisfaction

Since 1st April 2011, we have sent 31 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 31 sent we have received 23 responses.

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 13 of 23 responses categorised the audit service they received as excellent, another 10 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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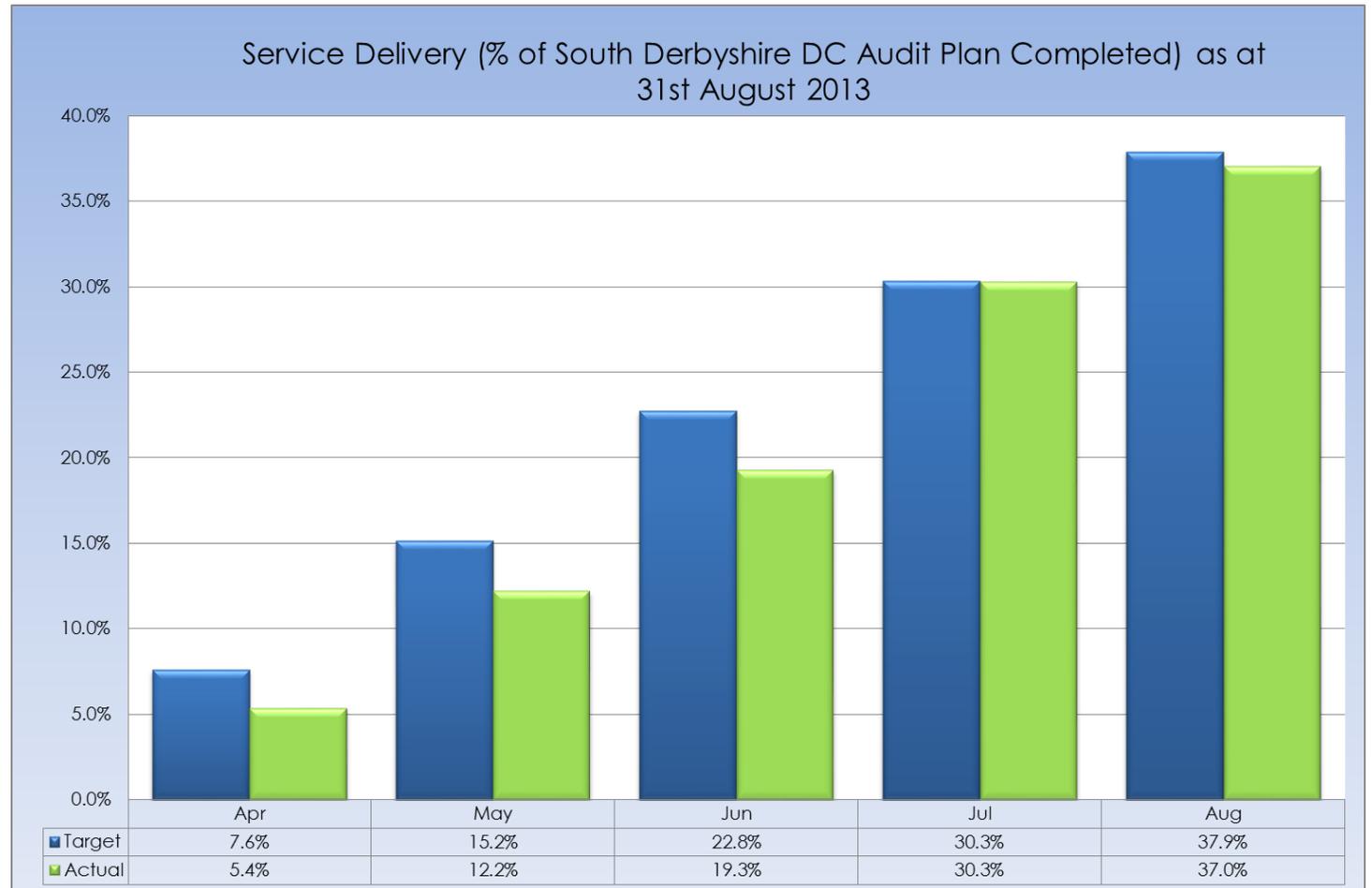
3 Audit Performance (Cont.)

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 2 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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4 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	113	7	3	0	0	1	124
Moderate Risk	26	1	0	0	0	0	27
Significant Risk	7	0	1	0	0	0	8
Critical Risk	0	0	0	0	0	0	0
	146	8	4	0	0	1	159

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	4	0	4	8
Due, but unable to obtain progress information	0	0	0	0
	4	0	4	8

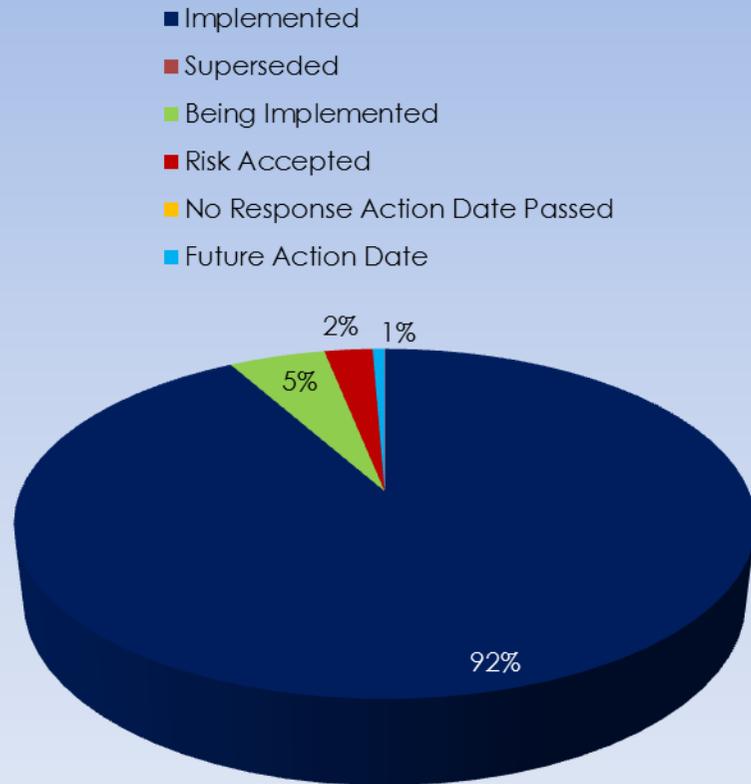
Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. We will provide full details of each recommendation where management has decided not to take any mitigating actions (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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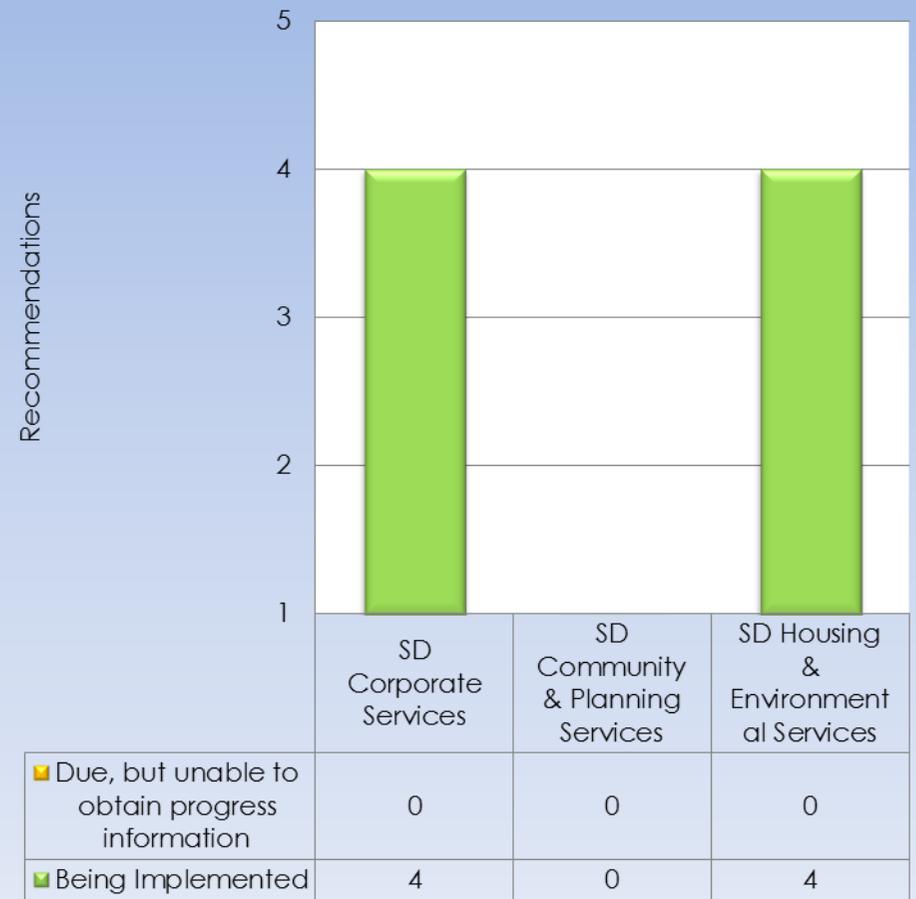
4 Recommendation Tracking (Cont.)

Implementation Status Charts

Action Status of Recommendations made between 1st Oct 2010 and 31st Aug 2013



South Derbyshire - Recommendations Not Yet Implemented by Department



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4 Recommendation Tracking (Cont.)

Recommendations Not Yet Implemented

Corporate Services

Car Allowances
<p>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.</p> <p>Risk Rating – Low Risk</p> <p>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 2013. 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.</p> <p>Original Action Date 30 Jun 11 Revised Action Date 31 Mar 14</p>

Risk Management
<p>Control Issue - There was not a documented policy or procedure for reporting and management of incidents.</p> <p>Risk Rating – Low Risk</p> <p>Status Update - We haven't progressed this as far as formal Committee approval is concerned. Having now got a draft policy, the plan is to consult with senior managers and take a proposal policy to the Audit Committee in June 2013 to be considered under their terms of reference regarding risk management.</p> <p>Original Action Date 31 Mar 13 Revised Action Date 30 Sep 13</p>

Council Tax / NNDR / Cashiering 2012-13
<p>Control Issue - The safe could be accessed by any one of several officers, with no single officer being accountable for the safe contents.</p> <p>Risk Rating – Low Risk</p> <p>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.</p> <p>Original Action Date 15 Jul 13 Revised Action Date 15 Apr 14</p>

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4 Recommendation Tracking (Cont.)

Recommendations Not Yet Implemented

Corporate Services

Legal & Democratic Services			
<p>Control Issue - Purchase orders were not being raised for goods and services required in respect of running the election.</p> <p>Risk Rating – Low Risk</p> <p>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.</p>			
Original Action Date	30 Nov 12	Revised Action Date	30 Nov 13

Housing & Environmental Services

Waste Management			
<p>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.</p> <p>Risk Rating – Moderate Risk</p> <p>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.</p>			
Original Action Date	1 Apr 13	Revised Action Date	31 Dec 13
<p>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.</p> <p>Risk Rating – Low Risk</p> <p>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.</p>			
Original Action Date	1 Apr 13	Revised Action Date	28 Feb 14

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Recommendations Not Yet Implemented

Housing & Environmental Services

Waste Management

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

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 Mutual repairs policy went to the legal team in July to check and then to the tenants forum. Hope to have the whole process wrapped up by end of August. The document will be managed by the business support unit who will undertake all consultations and the day to day operation of the policy.

Original Action Date 30 Jun 11 Revised Action Date 30 Sep 13