



central midlands audit partnership

South Derbyshire District Council – Internal Audit Annual Report 2017-18

Audit Sub-Committee: 30th May 2018



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Our Vision

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

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central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

Introduction

Why an Audit Opinion is required

The Public Sector Internal Audit Standards (PSIAS) states:

"The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Extracted from Public Sector Internal Audit Standards Updated March 2016 - 2450 Overall Opinions

In this instance, the Chief Audit Executive is the Audit Manager.

How an Audit Opinion is Formed

Internal Audit's risk-based plan must take into account the requirement to produce an annual internal audit opinion. Accordingly, the Audit Plan must incorporate sufficient work to enable the Audit Manager to give an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.



Possible Overall Opinions

The Audit Manager's opinion relative to the organisation as a whole could fall into one of the following 3 categories:

- **Inadequate System of Internal Control** – Findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
- **Adequate System of Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
- **Satisfactory System of Internal Control** - Findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended.

Quality Assurance and Improvement Programme

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

Public Sector Internal Audit Standards state:

Public sector requirement

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

Extracted from Public Sector Internal Audit Standards Updated March 2016 - 1320 Reporting on the Quality Assurance and Improvement Programme

Public Sector Internal Audit Standard 1312 also requires that:

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation."

Assessments are based on the following 3 ratings:

- **Generally Conforms** - means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards.
- **Partially Conforms** - means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

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- **Does Not Conform** - means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

An external quality assessment of the internal auditing activities of CMAP was undertaken during the period February – April 2017 and identified some opportunities for further improvement and development. The consultant provided an update position on our overall conformance with the Standards in September 2017 and was content to re-assess our conformance as follows:

	Number of standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	19	0	0
Performance Standards	33	33	0	0

Audit Opinion 2017-18

Based on the work undertaken during the year, I have reached the overall opinion that there is an **Adequate System of Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.

I have arrived at this opinion having regard to the following:

- In 2016-17 a major investigation was conducted into the procurement and contracting arrangements in the Council's Housing Department. This attracted a 'Limited' assurance rating. Management has resolved to take appropriate remedial action to improve controls. Management has provided evidence to suggest that significant progress has been made to address the control weaknesses identified by this assignment.
- A further investigation of additional allegations into the procurement and contracting arrangements in the Council's Housing Department was concluded in 2017-18 which identified further examples of issues identified in the original investigation as well as other similar issues. This work attracted a 'Reasonable' assurance rating. Again, Management has resolved to take appropriate remedial action to improve controls. Management has provided evidence to suggest that significant progress has been made to address the control weaknesses identified by this assignment.
- A wider examination of procurement and contracting arrangements within the Council was concluded in 2017-18. This work attracted a 'Limited' assurance rating. Management has resolved to take appropriate remedial action to improve controls.
- A specific assignment has been commenced to follow-up all of management's agreed actions to address the weaknesses in internal control identified by all three of the investigative assignments mentioned above. This work has yet to be concluded, but we are able to comment that whilst significant progress has been made to address many issues, some remedial actions have yet to be fully completed. It is considered that the lack of continuity of management has had a detrimental impact upon the implementation of agreed audit recommendations.
- The level of coverage provided by Internal Audit was considered adequate. Although, a number of planned audit assignments were replaced with the investigative work mentioned above.
- Of the 33 assignments that have been significantly completed, 10 attracted a 'Comprehensive' rating and 21 a 'Reasonable' assurance rating. The remaining 2 attracted a 'Limited' assurance rating.
- The following table summarises the number of control issues formally raised by Internal Audit from the audit assignments completed during 2017-18. These are

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grouped by the type of review undertaken and by the risk rating assigned to each audit recommendation. This table is followed by a summary update position on the significant and moderate risk recommendations.

Type of Review	Recommendations Made			
	Critical Risk	Significant Risk	Moderate Risk	Low Risk
Key Financial System (12)	-	-	9	32
System/Risk (6)	-	-	7	23
Governance/Ethics (3)	-	-	3	23
IT Audit (4)	-	3	9	21
Anti-Fraud (3)	-	1	6	11
Procurement/Contract (2)	-	1	3	4
Totals	-	5	37	114
Recommendation Status				
Implemented	-	3	20	75
Risk Accepted	-	-	1	4
Superseded	-	-	-	5
Being Implemented	-	2	9	11
Action Due	-	-	-	-
Future Action	-	-	7	19
Totals	-	5	37	114

- From the 12 **Key Financial System** audits concluded in 2017-18, of the 9 moderate risk recommendations, management decided to accept the risk associated with 1 issue and take no remedial action, 7 recommendations have now been implemented and the 1 remaining has yet to reach its target implementation date.
- From the 6 **System/Risk** audits concluded in 2017-18, of the 7 moderate risk recommendations, 4 have received revised implementation dates in the future and the 3 remaining have yet to reach their target implementation dates.
- From the 3 **Governance/Ethics** concluded in 2017-18, of the 3 moderate risk recommendations, 1 recommendation has now been implemented, and the 2 remaining have yet to reach their target implementation dates.
- From the 4 **IT Audits** completed during 2017-18:
 - 2 of the **significant** risk recommendations came from the Backup Server Healthcheck audit. The issues being that "Access to the server and communications room was vulnerable to unauthorised access" and "Copies of revenues and benefits databases were accessible to every user in the network, exposing both residents personal and financial data (BACS)". Management have now addressed both of these issues to our satisfaction.

The other **significant** risk recommendation related to the Express Electoral System Security Assessment; this being "The Council's postal vote

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application form on the main Council website (www.south-derbys.gov.uk) was requesting personal and sensitive information, including names, addresses, dates of birth and contact details to be submitted over an unsecure unencrypted protocol (HTTP)." This matter was also addressed to our satisfaction before the conclusion of the audit.

- Of the 9 moderate risk recommendations, 7 recommendations have now been implemented, 1 has yet to reach its target implementation date and the 1 remaining has received a revised implementation date in the future.
- From the 3 **Anti-Fraud** audit assignments completed during 2017-18:
 - The **significant** risk recommendation related to the Housing Contracts Review has yet to reach its target implementation date. The issue identified was *"Supplier spend analysis was not being effectively undertaken to identify instances where corporate contracts or frameworks would be advantageous."* Management's response was that the new shared service arrangement for the Council's Procurement function would be undertaking an annual spend analysis. This recommendation was followed-up by Internal Audit in May 2018, while we consider that progress has been made against implementation, further actions are required for this matter to be fully addressed and embedded into Council systems, following recent changes to the structure and service provision in Housing and Procurement. The Financial Services Unit has also been requested to undertake this action corporately as an added control. An updated supplier spend analysis from the FMS has been completed and this is being reviewed to identify potential areas of contractual spend. A revised action date has been agreed with Officers against this recommendation.
 - Of the 6 moderate risk recommendations, 2 recommendations have now been implemented and the 4 remaining have passed their original action dates. These recommendations were also followed-up by Internal Audit in May 2018, while we consider that progress has been made against implementation, further actions are required for these matters to be fully addressed and embedded into Council systems, following recent changes to the structure and service provision in Housing and Procurement. Revised action dates have also been agreed with Officers against these recommendations.
- From the 2 **Procurement/Contract** audit assignments completed during 2017-18:
 - The **significant** risk issue related to the Dry Waste Recycling Contract audit; it was that *"There was limited information available to support the tender evaluation process which could lead the contract award open to challenge."* Management's response to this issue was *"Unfortunately, individual scoring sheets could not be located for this particular tender. All relevant staff are aware of this requirement."* Management stated that

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they would ensure that the new Procurement service would consider this issue as part of their process." This recommendation was also followed-up by Internal Audit in May 2018, while we consider that progress has been made against implementation, further actions are required for this matter to be fully addressed and embedded into Council systems, following recent changes to the service provision in Procurement. A revised action date has been agreed with Officers against this recommendation.

- All 3 of the moderate risk recommendations have now been implemented.

This opinion is provided with the following caveats:

- The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Council. The opinion is substantially derived from the conduct of risk-based audit work and as such, it is one component that is taken into account when producing the Council's Annual Governance Statement.
- No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
- Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each individual audit report are to be realised.

Audit Coverage

Assurances Provided

The following table seeks to summarise the extent of audit coverage provided to South Derbyshire District Council during 2017-18 and the assurance ratings associated with each audit assignment.

Summary of Audit Plan 2017-18 Results (incl. Jobs B/Fwd)	Type of Review						Totals
	Key Financial System	System/ Risk	Governance /Ethics	IT Audit	Anti-Fraud	Procurement /Contract	
Not Yet Complete	3	-	2	-	1	-	6
Comprehensive	6	3	-	-	1	1	11
Reasonable	7	2	4	3	1	3	20
Limited	-	-	-	1	1	-	2
None	-	-	-	-	-	-	0
N/A	-	-	-	-	-	-	0
	16	5	6	4	4	4	39

Assurance Ratings Explained

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.

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.

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.

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.

N/A – The type of work undertaken did not allow us to reach a conclusion on the adequacy of the overall level of internal control.

These assurance ratings are determined using our bespoke modelling technique which takes into account the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks.

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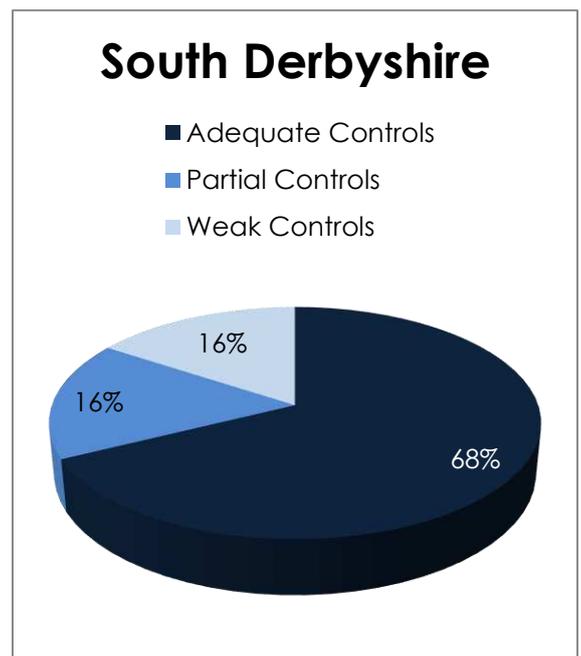
Audit Assignments Completed in 2017-18

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Main Accounting System (Reconciliations)	Comprehensive	-	-	-	1	100%
Main Accounting System 2016-17	Comprehensive	-	-	-	4	100%
Payroll 2016-17	Comprehensive	-	-	-	1	0%
Fixed Assets 2016-17	Reasonable	-	-	1	3	100%
Creditors 2016-17	Reasonable	-	-	1	2	100%
Debtors 2016-17	Comprehensive	-	-	-	-	n/a
Housing Benefit & Council Tax Support 2016-17	Reasonable	-	-	3	2	100%
Cashiering (Agile Audit)	Reasonable	-	-	1	4	100%
Tenants Arrears 2017-18	Reasonable	-	-	2	4	33%
Rent Accounting 2017-18	Reasonable	-	-	1	3	50%
Banking Services	Reasonable	-	-	-	7	100%
Taxation	Comprehensive	-	-	-	1	100%
NDR 2017-18 (Fieldwork Complete)	Comprehensive	-	-	-	-	n/a
People Management 2017-18	Reasonable	-	-	3	3	17%
Business Continuity & Emergency Planning	Comprehensive	-	-	-	2	50%
Parks & Open Spaces	Reasonable	-	-	2	6	25%
Leisure Centres	Reasonable	-	-	2	3	40%
Licensing	Comprehensive	-	-	-	4	75%
Sharpes Pottery	Comprehensive	-	-	-	5	20%
Officers Expenses & Allowances	Reasonable	-	-	2	1	33%
Data Quality & Performance Management 16-17	Reasonable	-	-	-	19	100%
Organisational Culture & Ethics	Reasonable	-	-	1	3	50%
Safeguarding (Draft)	Reasonable	-	-	-	-	n/a
Backup Policy	Reasonable	-	-	3	6	56%
Backup Server Healthcheck	Limited	-	2	1	5	63%
Change & Configuration Management	Reasonable	-	-	4	6	100%
Express Electoral System Security Assessment	Reasonable	-	1	1	4	83%
Waste Less, Save More	Comprehensive	-	-	-	2	100%
Whistleblowing Investigation 2	Reasonable	-	-	2	6	88%
Housing Contracts Review	Limited	-	1	4	3	13%
Dry Waste Recycling Contract	Reasonable	-	1	1	3	80%
New Build / Affordable Homes (Draft)	Comprehensive	-	-	-	-	n/a
Client Monitoring - Corporate Services Contract	Reasonable	-	-	2	1	100%
TOTALS		0	5	37	109	71%

Internal Controls Examined

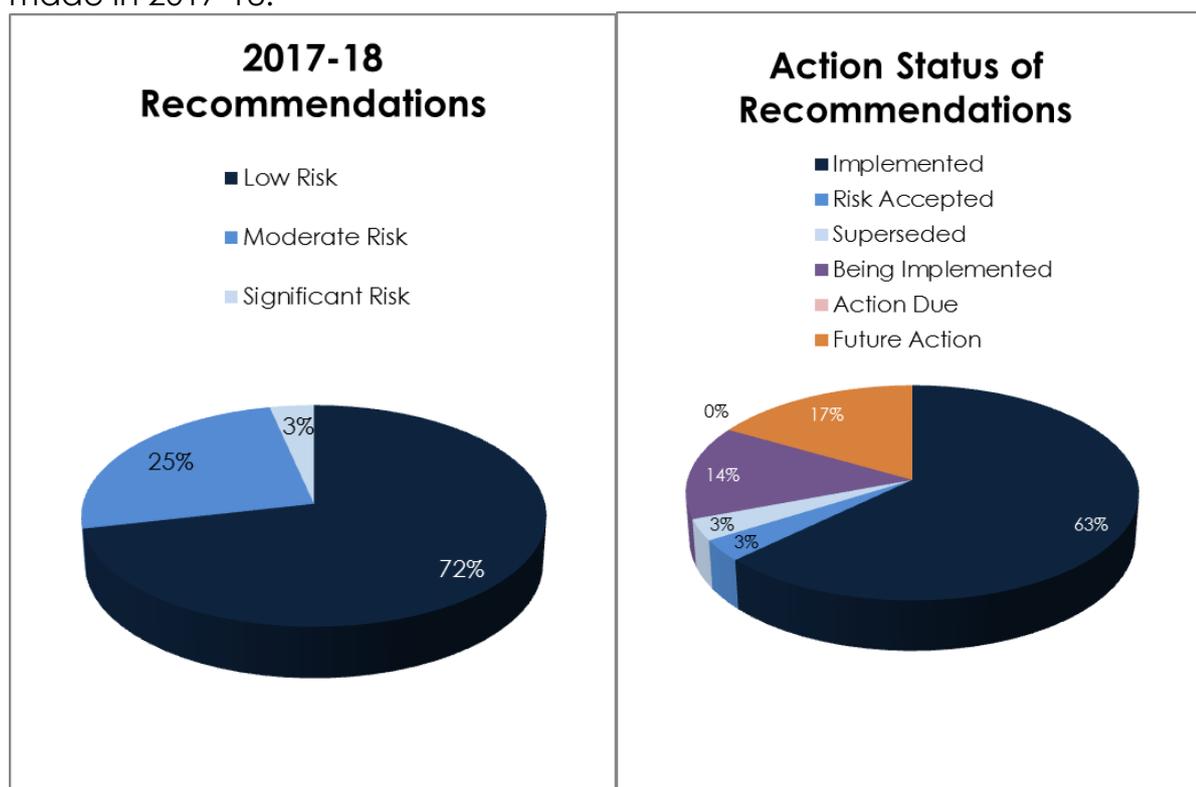
For those audits finalised during 2017-18, we established the following information about the controls examined:

South Derbyshire DC	2017-18
Evaluated Controls	603
Adequate Controls	408
Partial Controls	100
Weak Controls	95



Recommendations Made

The control weaknesses identified above resulted in 156 recommendations which suggested actions for control improvements. The following charts show the how the recommendations were risk rated and the current status of all recommendations made in 2017-18:



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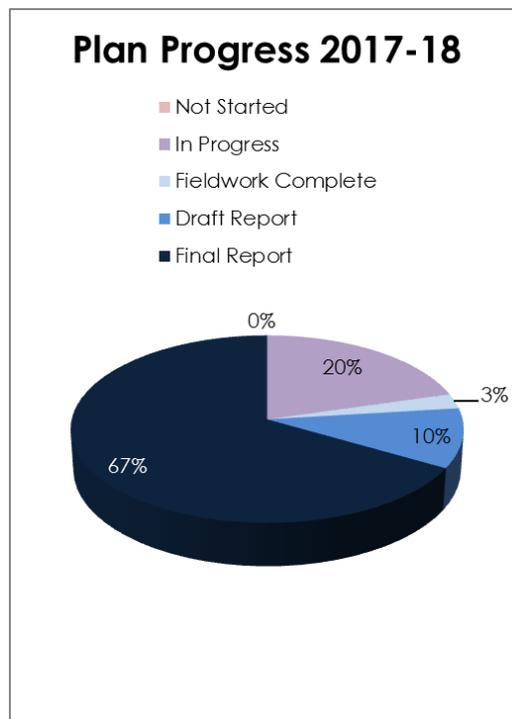
Audit Assignments Completed in Period	Type of Review	Recommendations Status			
		Total Closed	Action Due	Being Implemented	Future Action
Main Accounting System (Reconciliations)	Key Financial System	1	-	-	-
Main Accounting System 2016-17	Key Financial System	4	-	-	-
Payroll 2016-17	Key Financial System	-	-	-	1
Fixed Assets 2016-17	Key Financial System	4	-	-	-
Creditors 2016-17	Key Financial System	3	-	-	-
Debtors 2016-17	Key Financial System	-	-	-	-
Housing Benefit & Council Tax Support 2016-17	Key Financial System	5	-	-	-
Cashiering (Agile Audit)	Key Financial System	5	-	-	-
Tenants Arrears 2017-18	Key Financial System	2	-	-	4
Rent Accounting 2017-18	Key Financial System	2	-	-	2
Banking Services	Key Financial System	7	-	-	-
Taxation	Key Financial System	1	-	-	-
NDR 2017-18 (Fieldwork Complete)	Key Financial System	-	-	-	-
People Management 2017-18	System/Risk	1	-	-	5
Business Continuity & Emergency Planning	System/Risk	1	-	-	1
Parks & Open Spaces	System/Risk	2	-	6	-
Leisure Centres	System/Risk	2	-	3	-
Licensing	System/Risk	3	-	-	1
Sharpes Pottery	System/Risk	1	-	-	4
Officers Expenses & Allowances	Governance/Ethics	1	-	-	2
Data Quality & Performance Management 2016-17	Governance/Ethics	19	-	-	-
Organisational Culture & Ethics	Governance/Ethics	2	-	-	2
Safeguarding (Draft)	Governance/Ethics	-	-	-	-
Backup Policy	IT Audit	5	-	-	4
Backup Server Healthcheck	IT Audit	5	-	3	-
Change & Configuration Management	IT Audit	10	-	-	-
Express Electoral System Security Assessment	IT Audit	5	-	1	-
Waste Less, Save More	Anti-Fraud	2	-	-	-
Whistleblowing Investigation 2	Anti-Fraud	7	-	1	-
Housing Contracts Review	Anti-Fraud	1	-	7	-
Dry Waste Recycling Contract	Procurement/Contract	4	-	1	-
New Build / Affordable Housing (Draft)	Procurement/Contract	-	-	-	-
Client Monitoring - Corporate Services Contract	Procurement/Contract	3	-	-	-
TOTALS		108	-	22	26

Performance Measures

Service Delivery (% of Audit Plan Completed)

By the end of the Plan year 88.1% of the Audit Plan had been completed against a target of 90%.

Plan Progress	As at 31 st March 2018
Not Started	-
In Progress	8
Fieldwork Complete	1
Draft Report	4
Final Report	26
Total	39



Customer Satisfaction Returns

The chart below summarises the overall scores from the 14 customer satisfaction survey responses received in 2017-18. The average score from the surveys was 46.9 out of 55. The lowest score received from a survey was 34, whilst the highest score was 55 which was achieved on 2 occasions.

