



South Derbyshire District Council – Internal Audit Progress Report

Audit Sub-Committee: 19th December 2012



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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South Derbyshire District Council – Internal Audit Progress Report

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 2011-12 Audit Plan Assignments

Between 1st September 2012 and 30th November 2012, Internal Audit has spent a total of 2.75 days on 2011-12 audit reviews that have been brought forward into South Derbyshire's 2012-13 Audit Plan. The time spent can be broken down as follows:

2011-12 Audit Assignments Carried Forward	Current Status	Days Spent
Payroll	Final Report	2.75
	Total Days	2.75

The following 2011-12 audit assignment has been finalised since the last Progress Report was presented to this Committee:

- Payroll.

This audit attracted a 'Reasonable' Control Assurance Rating. Accordingly there is no requirement to draw Committee's particular attention to the summary that follows:

Payroll Audit

Overall Control Assurance Rating: **Reasonable**

This audit focused on how employee details are captured and entered into the Human Resource module of Resourcelink following an incident where an employee was paid twice in the same pay period. Enquiries revealed that the employee had been transferred into a new post as part of a restructuring exercise and had been paid a monthly salary for both new and old posts. The error came to light when the employee contacted HR to query the overpayment. Internal Audit undertook further enquiries into the incident examining how payroll and HR operate to capture, input and process employee information to produce the payroll.

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 second officer check on the Employee Authorisation Form did not include a review of all of the input. The exception reporting undertaken by NorthgateArinso identified the duplicate payment, but there was no evidence to suggest that further action was taken. (Low Risk)
- There was no evidence available to confirm that the recruiting manager had undertaken appropriate checks on the identity and eligibility of candidates. (Low Risk)

Both of the control weaknesses raised within this report were accepted and positive action had already been taken to address one issue and the other issue was agreed to be addressed by 1st October 2012.

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2 Audit Coverage (Cont.)

Progress on 2012-13 Audit Plan Assignments

Between 1st September 2012 and 30th November 2012, Internal Audit has spent a total of 98.25 days on 2012-13 audit reviews and other audit work. The time spent can be broken down as follows:

2012-13 Audit Assignments	Current Status	Days Spent
Waste Management	Awaiting Review	7.75
Main Accounting.	In Progress	2.75
Treasury Management / Insurance	Allocated	-
Council Tax / NNDR / Cashiering	Not Started	-
Housing & Council Tax Benefit	Not Started	-
Payroll / Officers Expenses & Allowances	In Progress	5.75
Creditors / Debtors	In Progress	2.25
Fixed Assets	In Progress	6.50
Procurement	Final Report	4.00
Service Contracts	In Progress	6.00
Data Quality & Performance Managmnt	In Progress	3.00
Anti-Fraud & Corruption (NFI, etc.)	Final Report	3.50
Post Implementation Review - Agresso	Allocated	0.75
Email & Internet Services Healthcheck	In Progress	3.00
People Management	Final Report	5.00
Housing Contract	Final Report	21.00
Neighbourhood Warden	In Progress	7.00
Audit Sub Committee / Follow-ups	Ongoing	3.75
Advice / Emerging Issues etc.	Ongoing	16.25
External Audit / Audit Planning	Ongoing	-
	Total Days	98.25

The following 2012-13 audit assignments have been finalised since the last Progress Report was presented to this Committee:

- Procurement.
- Housing Contract (Tender Process).
- People Management.
- Anti-Fraud & Corruption.

Procurement Audit

Overall Control Assurance Rating: **Reasonable**

This audit focused on reviewing the Procurement Service to provide assurance that systems were operating effectively and providing an acceptable level of control in order to satisfy the requirements of the Audit Sub-Committee and External Audit.

From the 20 key controls evaluated in this audit review, 13 were considered to provide adequate control and 7 contained weaknesses. The report contained 4 recommendations, 3 of which were considered a low risk and 1 was considered a moderate risk. The following issues were considered to be the key control weaknesses:

- Periodic checks were not being undertaken of the Register of Disclosures by the Procurement Team to flag potential conflicts of interests by members and staff. (**Low Risk**)
- Sections of the Contract Procedure Rules were found to be out-of-date. (**Low Risk**)
- Periodic checks were not being undertaken of the Register of Disclosures by the Procurement Team to flag potential conflicts of interests by members and staff. (**Low Risk**)
- Out-of-date documents were used in the supplier vetting process and a new supplier was set up on the Financial Management System without the formal approval on 2 separate documents. (**Moderate Risk**)

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2 Audit Coverage (Cont.)

All 4 of the control issues raised within this report were accepted and positive action in respect of 3 recommendations was agreed to be taken by 31st December 2012 and the remaining recommendation was agreed to be addressed by 31st January 2013.

Housing Contract (Tender Process) Audit

Overall Control Assurance Rating: **Reasonable**

Internal Audit was requested to examine the circumstances surrounding the Replacement Roof Coverings (2012 - 2015) tender process.

Two separate reports were issued in relation to this assignment; one was to provide management with a detailed account of our findings and an opinion from an independent perspective to allow management to decide on the most appropriate course of action to take.

From this report, the following 'Significant Risk' issue was identified as requiring action, specific to the Replacement Roof Coverings contract:

- Errors made in the tender evaluation process and not re-evaluating the quality scores following the Interview Stage could have resulted in the contract being awarded to the wrong company and/or to the financial detriment of the Council. (**Significant Risk**)

The second report was produced to address weaknesses in the Council's systems of control in relation to general tendering procedures for any future tender exercises. This report contained 10 recommendations, 5 were considered a low risk, 5 a moderate risk, none a significant risk, and none were considered to be critical risk.

- With respect to the quality assessments we found that scoring details from 5 of the 20 Score sheets had been incorrectly transferred to the Scoring Matrix which affected the overall Quality Scores of 4 of the 5 contractors being assessed. (**Moderate Risk**)
- A tender submission had been assessed along with the submissions from the other tenderers despite a Form of Tender not being

submitted with the formal tender documentation. (**Low Risk**)

- The method by which the Quality Points would be awarded was not made clear from the tender documentation and the contractor with the best quality had not been awarded the maximum 20 points available as we expected. (**Low Risk**)
- There was some confusion between the Housing Department and Northgate whether the same questions should be asked of all tenderers at the Interview Stage or whether questions should be tailored for each contractor. (**Low Risk**)
- The Contract Procedure Rules identified the high level tendering requirements, but there was no further guidance to provide specific direction or instructions to officers performing the duties. (**Moderate Risk**)
- Northgate's revised draft of Contract Procedure Rules advocates the use of a negotiated procedure for all tender exercises. (**Moderate Risk**)
- The overall transparency of the contract could be questioned as no intention to assess the quality scores, following the Interview Stage, had been communicated to the tenderers and the criteria for re-assessing quality at the Interview Stage had not been agreed prior to the tender process. (**Low Risk**)
- Although Form of Tenders documents had been received with the original prices tendered, as required by the Instructions to Tenderers, re-submitted Price Schedules following negotiations were not accompanied by Form of Tenders. (**Low Risk**)
- Following submission of the Best and Final Offers (BAFO) the price scores were re-marked, but not the quality scores, despite there now being further clarification on a number of the quality aspects which could potentially also improve the tenderers quality scores. (**Moderate Risk**)
- The costing mechanism agreed at the Procurement Governance

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2 Audit Coverage (Cont.)

Meeting for calculating the savings achieved against this contract by Northgate could have resulted in the Council incurring additional costs rather than making savings. (**Moderate Risk**)

All 10 of the control issues raised within this report were accepted and positive action was agreed to be taken to address all 10 recommendations by 31st December 2012.

People Management Audit

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing the following procedures and processes in place for people management: Policies & Procedures; Equalities; Learning & Development; Absence Management; Disciplinary Procedures.

From the 26 key controls evaluated in this audit review, 24 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 version of the staff handbook available on the intranet was dated February 2009 and contained out-of-date links to other documents. Also, it was not subject to version control. Another related policy had passed its bi-annual review date. (**Low Risk**)
- The disciplinary procedure did not include any examples of what might be considered as misconduct as opposed to gross misconduct. (**Low Risk**)

All of the control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of 1 recommendation was due to be taken by 2nd January 2013 and the remaining recommendation was due to be addressed by 31st May 2013.

Anti-Fraud & Corruption Audit

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the policies and strategies, data-matching opportunities and activities taking place as part of the overall anti-fraud environment at South Derbyshire District Council.

From the 20 key controls evaluated in this audit review, 18 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 Employee Code of Conduct was not up-to-date following new legislation – The Bribery Act 2010 - coming into force. (**Low Risk**)
- The Financial Procedure Rules did not contain a version control section, so it was not readily apparent whether an out-of-date version was being used, and other key documents (the Contract Procedure Rules and Anti-Money Laundering Policy) showed proof reading weaknesses. (**Low Risk**)

Both of the control issues raised in this report were accepted. Positive action was agreed to be taken to address both control issues by 2nd November 2012.

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3 Audit Performance

Customer Satisfaction

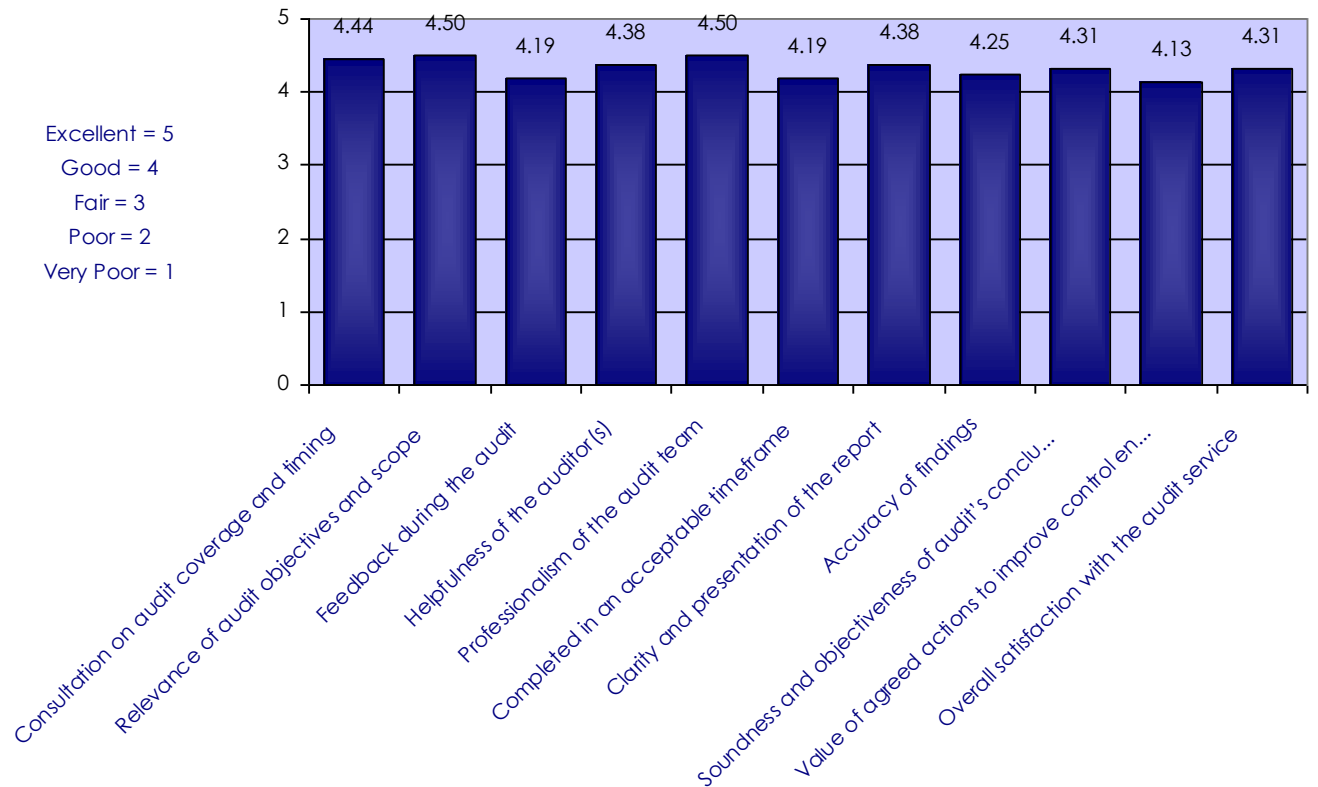
The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. Appendix A summarises the average score for each category from the 17 responses received. The average score from the surveys was 47.6 out of 55. The lowest score received from a survey was 42, while the highest was 55.

The overall responses are graded as either:

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

Overall 11 of 17 responses categorised the audit service they received as excellent, another 6 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.

South Derbyshire District Council
CMAP - Customer Satisfaction Survey Results between 1st February 2011 and 31st October 2012



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3 Audit Performance (Cont.)

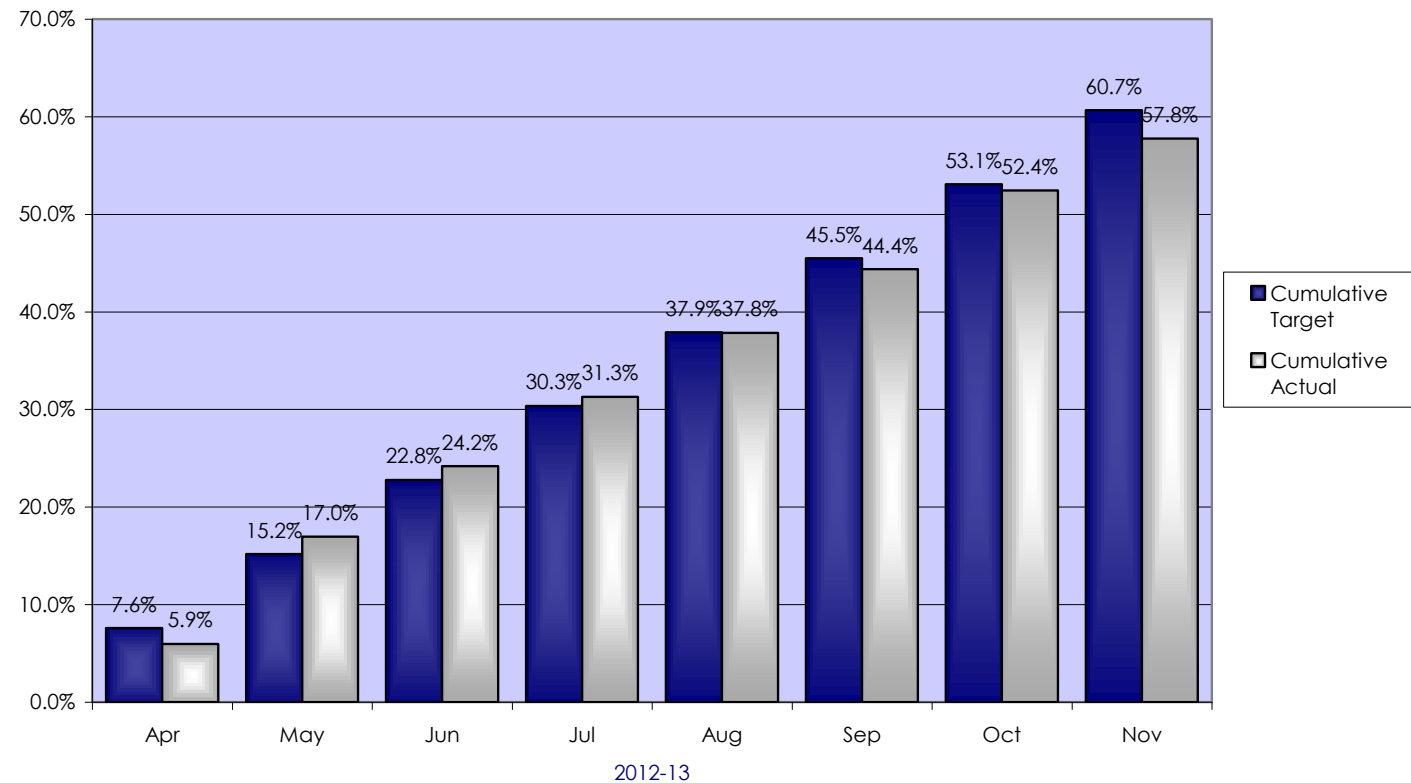
Service Delivery (% of Audit Plan Completed)

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 2012-13 Audit Plan (including incomplete jobs brought forward) after 8 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.

Central Midlands Audit Partnership
Service Delivery (% of South Derbyshire DC Audit Plan Completed)



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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.
- **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.
- **Accept Risk** = 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).

- **Not Implemented** = Management has decided, on reflection, not to implement the agreed actions.

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. We have not included the recommendations made in audit reports issued since 1 October 2012. This is to allow time for those recommendations to have reached their agreed implementation dates.

	Implemented	Superseded or Risk Accepted	Being implemented	Not implemented	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	55	1	9	0	0	13	78
Moderate Risk	15	0	0	0	0	2	17
Significant Risk	5	1	1	0	0	0	7
Critical Risk	0	0	0	0	0	0	0
	75	2	10	0	0	15	102

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

Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Not Implemented	0	0	0	0
Being implemented	8	1	1	10
Due, but unable to obtain progress information	0	0	0	0
	9	1	1	10

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' with full details of each recommendation where management, on reflection, has decided not to implement the agreed actions (shown in the 'Not Implemented' category above).

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4 Recommendation Tracking (Cont.)

Recommendations Being 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 - This is still under consideration. This is a longer-term issue and will not be reviewed for the foreseeable future.</p>	
Original Action Date	30 Jun 11
Revised Action Date	31 Mar 13

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 – An independent review of the Elections process has recently been commissioned by the Chief Executive which will look at these processes.</p>	
Original Action Date	30 Nov 12
Revised Action Date	30 Apr 13

Legal & Democratic Services	
<p>Control Issue - Five items of election expenditure exceeded £2,500, yet quotes had not been sought or obtained in accordance with the Council's Financial Procedure Rules. One of which also exceeded the £10,000 limit which requires a formal supply agreement.</p> <p>Risk Rating – Low Risk</p> <p>Status Update - An independent review of the Elections process has recently been commissioned by the Chief Executive which will look at these processes.</p>	
Original Action Date	30 Nov 12
Revised Action Date	30 Apr 13

Licensing	
<p>Control Issue - The Licensing Section did not have a comprehensive performance management framework which recognized the section's achievements and clearly demonstrated how the section was contributing to the Council's overall vision and priorities.</p> <p>Risk Rating – Low Risk</p> <p>Status Update – Following a restructure of the Service and appointment of the Senior Licensing Officer at the end of August 2012 this issue has to be re-addressed. A lot of procedures and work flow are being reviewed and as part of this some performance indicators and monitoring will evolve. Realistically, this will not be completed until April 2013.</p>	
Original Action Date	30 Sep 11
Revised Action Date	1 Apr 13

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4 Recommendation Tracking (Cont.)

Implementation Status Details

Corporate Services (Cont.)

Academy IT System Security
<p>Control Issue - The Academy Server was still running service pack 1 of Windows 2003 Server. Security updates are typically service pack dependant, so the newer security updates won't be applied to the server. Subsequently this leaves the server and the data stored within highly vulnerable to exploitation.</p> <p>Risk Rating – Significant Risk</p> <p>Status Update - Implementation date to be completed at same time as other Academy upgrades. Will be done before end of Dec 2012.</p> <p>June Update: To be planned into a point before Dec 2012 to coincide with another point that Kip will be taken down.</p> <p>Original Action Date 31 May 12 Revised Action Date 31 Dec 12</p>

Risk Management
<p>Control Issue - Identified risks were not linked to the strategic objectives of the Council.</p> <p>Risk Rating – Low Risk</p> <p>Status Update - The intention is to tie this into the updated corporate and service plans at that time where the key risks will be reviewed.</p> <p>Original Action Date 6 Dec 12 Revised Action Date 28 Feb 13</p>

Risk Management
<p>Control Issue - Management of individual key corporate risks had not been assigned to appropriate managers.</p> <p>Risk Rating – Low Risk</p> <p>Status Update - The intention is to tie this into the updated corporate and service plans at that time where the key risks will be reviewed.</p> <p>Original Action Date 6 Dec 12 Revised Action Date 28 Feb 13</p>

Housing Benefits 2011-12
<p>Control Issue - Not all of the Housing and Council Tax Benefit information on the Council's website was up-to-date.</p> <p>Risk Rating – Low Risk</p> <p>Status Update – This activity needs to be undertaken after the Council finalises the CTS scheme at the end of January. I would therefore propose that we spend February/March making the web changes alongside the operational ones we need to make, such as redesigning claim form i.e. as we develop new processes we update the web.</p> <p>Original Action Date 1 Dec 12 Revised Action Date 31 Mar 12</p>

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4 Recommendation Tracking (Cont.)

Implementation Status Details

Housing & Environmental Services

Housing Repairs			
<p>Control Issue - The Mutual Repairs Policy had not been established, although it was referred to in the Repairs Policy.</p> <p>Risk Rating – Low Risk</p> <p>Status Update - The Mutual repairs policy is in draft at present, the team are currently reviewing the repairs policy with the South Derbyshire Tenants' Forum and hope to get the two documents fully consulted upon and issued by June 2012. The officer progressing this has been moved onto the 5 year asset management plan and has asked for the date to be extended.</p>			
Original Action Date	30 Jun 11	Revised Action Date	28 Feb 13

Community & Planning Services

Planning Services			
<p>Control Issue - The Building Control section were not aware that invoices remained unpaid. It would be easier to obtain payment for outstanding invoices if the building control process was suspended until payment was made.</p> <p>Risk Rating – Low Risk</p> <p>Status Update - The debtors report is now available to run at any time from the Self Service facility on the Agresso system. It can be run for all invoices raised by Building Control or can be done for specific customers. Still need to look into whether we can withhold services.</p>			
Original Action Date	1 Sep 12	Revised Action Date	31 Jan 13