central midlands audit partnership

South Derbyshire District Council – Internal Audit Progress Report

Audit Sub-Committee: 19th June 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.

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central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

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 Audit Assignments

The following audit assignments are progressing at the moment. Another 14 planned assignments have yet to commence.

2013-14 Audit Plan Assignments	Type of Audit	Current Status	% Complete
Capital Programme	Systems/Risk Audit	In Progress	20%
VAT	Systems/Risk Audit	Allocated	5%
Procurement	Procurement/Contract Audit	In Progress	20%
Virtualisation Management	IT Audit	Allocated	70%
Client Monitoring - Corporate Services Contract	Systems/Risk Audit	In Progress	25%
Records Management	Governance Review	In Progress	5%
Data Quality 2013-14	Governance Review	Allocated	5%
Leisure Centres	Systems/Risk Audit	In Progress	15%
Housing Allocations 2013-14	Systems/Risk Audit	In Progress	60%
B/Fwd - Treasury Management / Insurance 2012-13	Key Financial System	In Progress	75%
B/Fwd - Payroll / Officers Expenses & Allowances 2012-13	Key Financial System	In Progress	75%
B/Fwd - Post Implementation Review - Agresso Upgrade	IT Audit	In Progress	40%
B/Fwd - Email & Internet Services Health-check	IT Audit	In Progress	55%
B/Fwd - Service Contracts	Procurement/Contract Audit	In Progress	65%
B/Fwd - Council Tax / NNDR / Cashiering 2012-13	Key Financial System	Draft Report	95%
B/Fwd - Housing & Council Tax Benefit 2012-13	Key Financial System	Draft Report	95%
B/Fwd - Housing Allocation 2012-13	Investigation	Final Report	100%

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2 Audit Coverage (Cont.)

Progress on Audit Assignments Chart

Audit Assignments 2012-13

	Not Allocated	Allocated but not yet started	Started - Fieldwork commenced	Awaiting Review - Fieldwork complete	Reviewed but draft report not yet issued	Draft Report issued	Final Report issued	Job Complete but no formal report	Removed from Plan
Series1	14	3	11	0	0	2	1	0	0
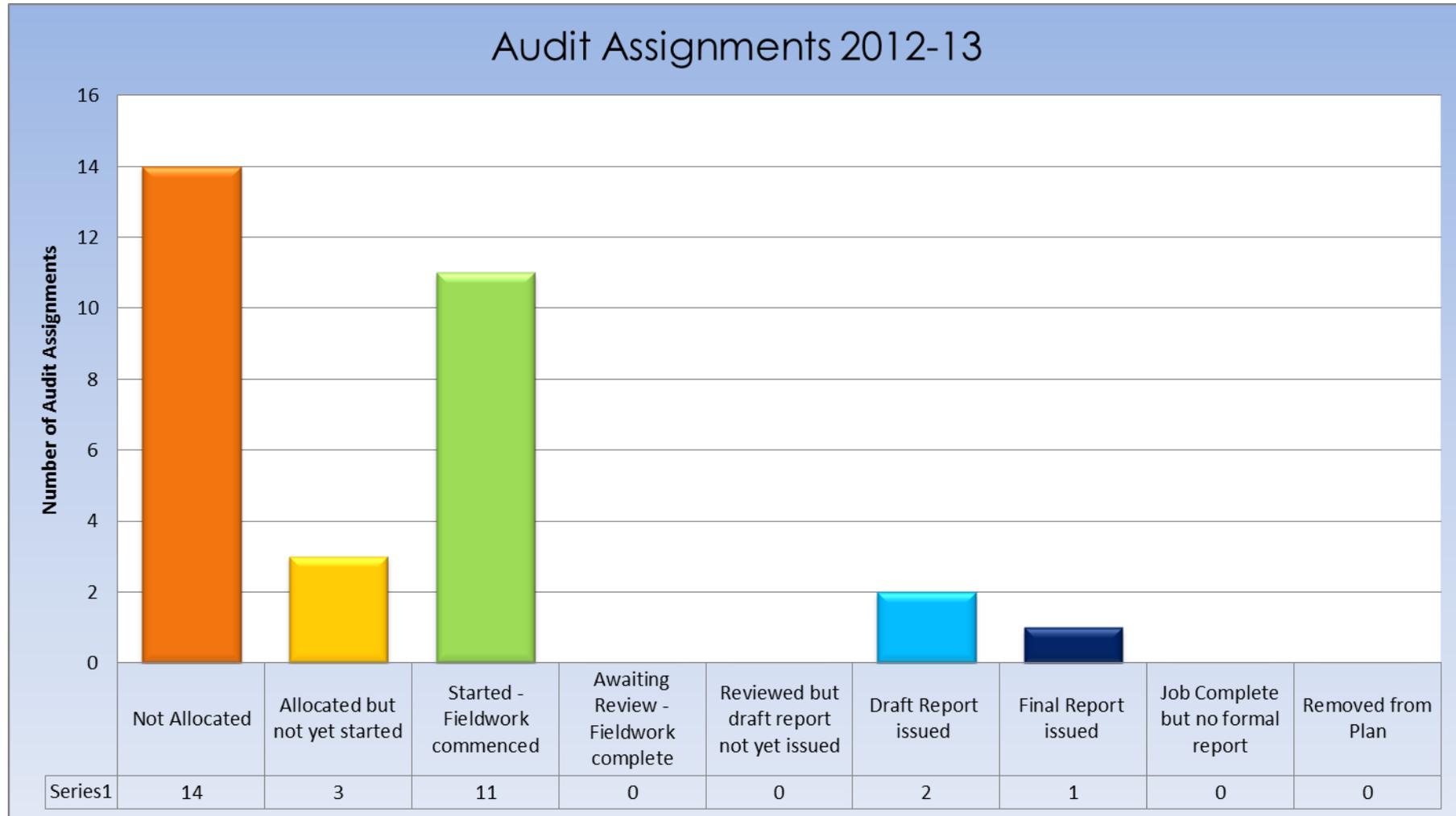
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2 Audit Coverage (Cont.)

Completed Audit Assignments

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

- Fixed Assets 2012-13.
- Accounting Systems 2012-13.
- Creditors/Debtors 2012-13.
- Data Quality & Performance Management 2012-13.
- Stray Dogs Income.
- Housing Allocation.

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

Fixed Assets 2012-13

Overall Control Assurance Rating: **Comprehensive**

This audit focused on 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 21 key controls evaluated in this audit review, 13 were considered to provide adequate control and 8 contained weaknesses. The report contained 3 recommendations, all 3 of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- Although a check was performed of items valued at £10,000 and above and where appropriate these were capitalised and added to the Fixed Asset Register, this exercise did not identify those assets that were disposed of below this value potentially leading to the Fixed Asset Register not being updated. (Low Risk)

- Finance did not require departments to undertake a formally recorded annual physical verification exercise that was signed and approved by a senior officer to confirm the existence of assets on the Fixed Asset Register. (Low Risk)
- It was not standard practice for periodic reconciliations to be undertaken between the Fixed Asset Register and the Property Services Asset Register. (Low Risk)

All 3 of the control issues within this report were accepted and positive action to address all 3 issues was agreed to be taken by 31st March 2013.

Accounting Systems 2012-13

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing key controls in relation to the main accounting system which included consideration of: guidance to staff, accuracy of the financial information, feeder systems, budgetary control, virements, journals, reconciliations and access to data.

From the 46 key controls evaluated in this audit review, 41 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 control weaknesses:

- There was not a review of unauthorised journals that had been processed 'through workflow'. (Low Risk)
- There was insufficient evidence to demonstrate authorisation and review of journals that had not been processed through the Agresso workflow. (Low Risk)
- Control account reconciliations had not consistently been undertaken during the financial year. (Low Risk)
- The Audit user group had the same access permissions as the Finance user group for the Finance files located on the S:\ drive. (Low Risk)

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2 Audit Coverage (Cont.)

All 4 control issues raised in this report were accepted and action had already been taken to address the recommendations by the time of issuing the final report.

Creditors/Debtors 2012-13

Overall Control Assurance Rating: **Comprehensive**

This audit focused on a review of the controls and processes that ensured that only legitimate creditors were paid and that debtor invoices were appropriately raised and debt recovery was undertaken promptly.

From the 37 key controls evaluated in this audit review, 35 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:

- There were six credit balances of over £1,000 and further balances over two years old that had not been cleared from their accounts. (Low Risk)
- No one was independently checking invoices which had been suppressed from the debt recovery process. (Low Risk)

Both control issues raised in this report were accepted and action was agreed to be taken to address both issues by 1st April 2013.

Data Quality & Performance Management

Overall Control Assurance Rating: **Reasonable**

An audit of Data Quality & Performance Management was requested by the Council as part of the 2012/13 Audit Plan to follow up on the Performance Indicator Self-Assessment process previously conducted in 2010/11. The Government require Councils to have effective arrangements in place for the monitoring and review of data quality.

Of the 17 key controls evaluated in this audit review of the performance indicator 'Adult Participation in Sport (Previously NI 8)', no issues were considered to be key control weaknesses.

Of the 17 key controls evaluated in this audit review of the performance indicator 'Number of Acquisitive Crime Incidents per 1000 Population', 11 were considered to provide adequate control and 6 contained weaknesses The report contained 2 recommendations, 1 was considered a low risk and 1 a moderate risk. The following issues were considered to be the key control weaknesses:

- Robbery figures had not been included within the calculation of this performance indicator and the reported performance figures had subsequently been inaccurately reported in Quarter 1, 2 and 3 during 2012/13. (Moderate Risk)
- Performance figures were not being checked and authorised by the Indicator Owner and incorrect performance figures had subsequently been reported to the Policy and Communications Team. (Low Risk)

Both of the control issues were accepted and positive action was agreed to be taken to address 1 issue by 1st April 2013 and the remaining issue was due to be addressed by 30th June 2013.

Stray Dogs Income

Overall Control Assurance Rating: **Reasonable**

This report focuses on the control weaknesses that were identified as a result of the probity work undertaken into the discrepancies identified with the records relating to Stray Dog income. This report contained 7 recommendations, 5 were considered a low risk and 2 a moderate risk. The following issues were considered to be the key control weaknesses:

- The Kennels were not issuing receipts to dog owners for income collected by them on behalf of the Council. (Low Risk)

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2 Audit Coverage (Cont.)

- Monthly records supplied to the Council by the Kennels were not comprehensive and did not provide details of income due and collected from dog owners. (Low Risk)
- There was no reliable process for ensuring that cash income being collected from the Kennels by Council officers had been paid in at the Customer Services counter in the Civic Offices. (Low Risk)
- There was no reliable process for ensuring that debtor invoices were being raised against dog owners to the correct value. An Invoice was raised for a nil value when this should have been for £53.50. (Low Risk)
- CCTV recordings were not sourced as soon as it became apparent they could be beneficial to the enquiries and by the time they were requested it was too late to retrieve the required evidence. (Moderate Risk)
- Council fees for charges to owners of stray dogs were not consistent with statutory fees and inconsistent charges were being levied. (Moderate Risk)
- There were no written procedures with respect to the collection of stray dog income and the associated financial records. (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 2 recommendations had already been taken, 3 recommendations were due to be addressed by 1st March 2013 and the remaining 2 recommendations were due to be addressed by 1st April 2013.

Housing Allocation

Overall Control Assurance Rating: **N/A**

We examined the circumstances surrounding the allocation of a Council property to a family who were connected to a Council officer. In our opinion, the allocation of the property was in adherence with the Housing Allocations Policy and there is no firm evidence to suggest that any inappropriate behaviour had occurred. However, there were clear indications that weaknesses in the system of control would not sufficiently protect officers from accusations of favouritism. Accordingly, a systems audit has been included in the 2013-14 Audit Plan.

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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 18 responses received. The average score from the surveys was 47.7 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 12 of 18 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 Feb 2011 and 31st May 2013
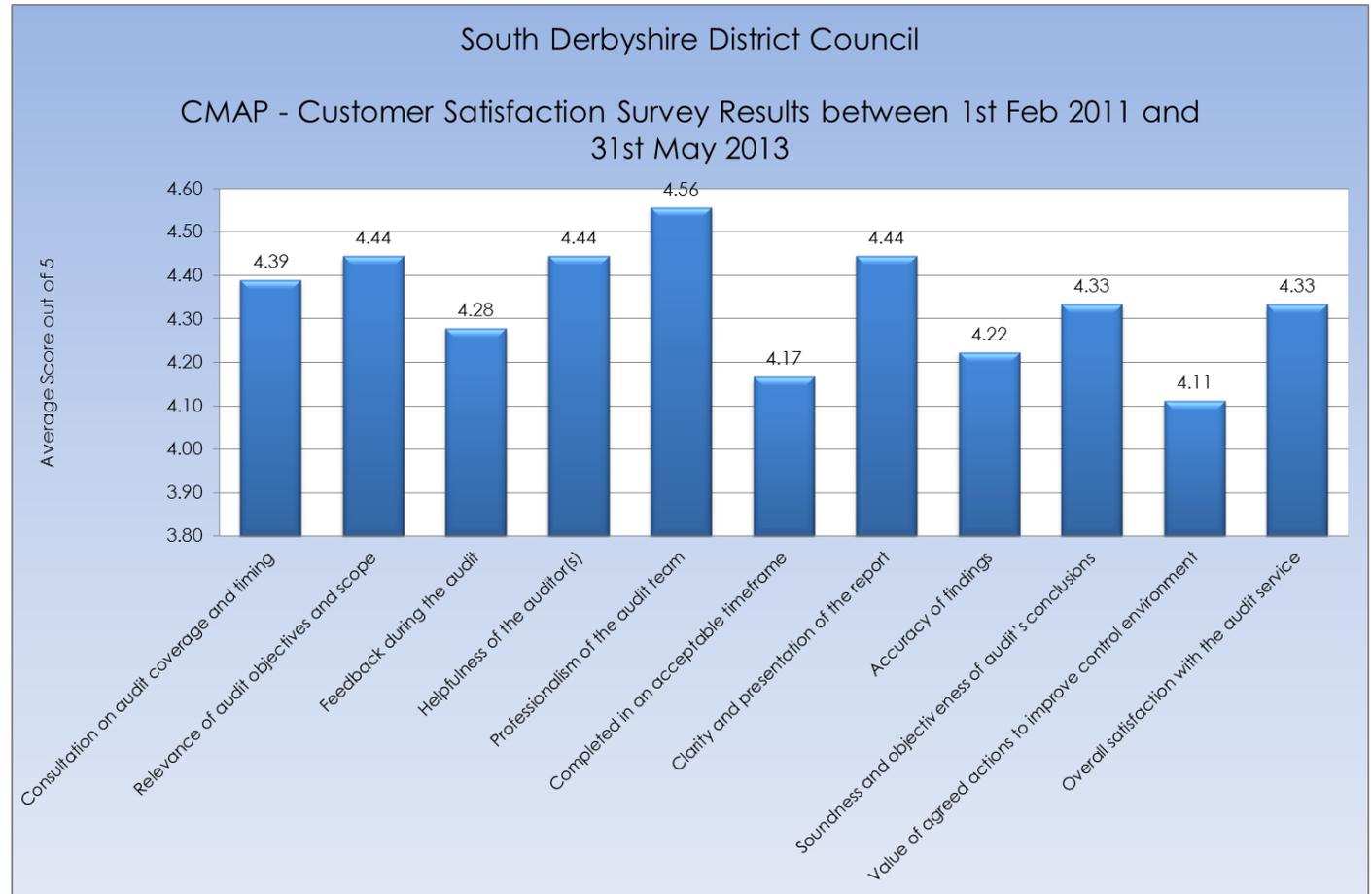
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3 Audit Performance (Cont.)

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.
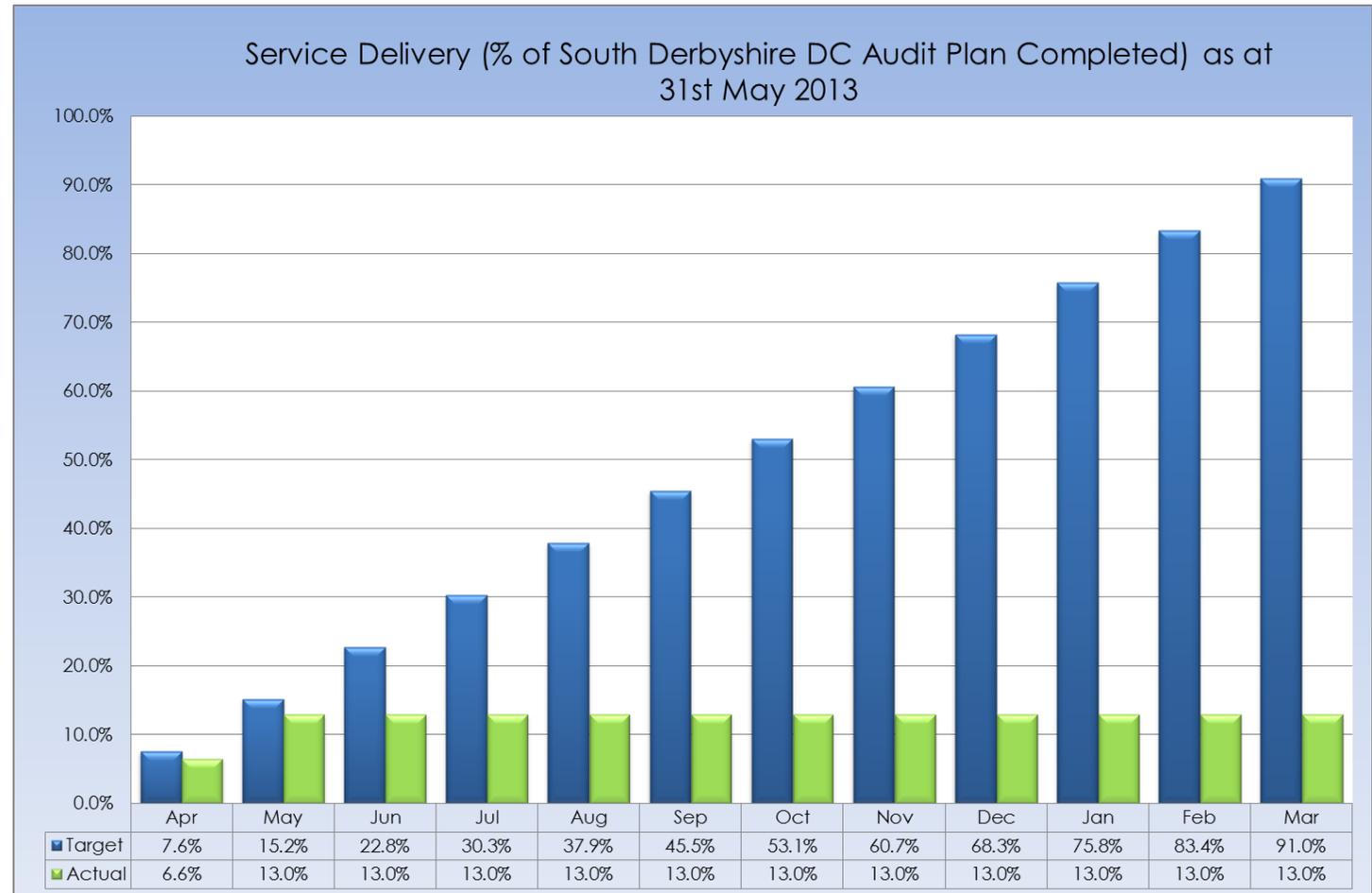
Service Delivery (% of South Derbyshire DC Audit Plan Completed) as at 31st May 2013

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Target	7.6%	15.2%	22.8%	30.3%	37.9%	45.5%	53.1%	60.7%	68.3%	75.8%	83.4%	91.0%
Actual	6.6%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%

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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. We have not included the recommendations made in audit reports issued since 1 February 2013. This is to allow time for those recommendations to have reached 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	84	5	3	0	3	2	**97**
Moderate Risk	23	1	0	0	0	0	**24**
Significant Risk	7	0	1	0	0	0	**8**
Critical Risk	0	0	0	0	0	0	**0**
	114	6	4	0	3	2	**129**

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

Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Risk Accepted	3	1	0	**4**
Being implemented	4	0	2	**6**
Due, but unable to obtain progress information	0	0	3	**3**
	7	1	5	**13**

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 Jan 2013

- Implemented
- Superseded
- Being Implemented
- Risk Accepted
- No Response Action Date Passed
- Future Action Date

0% 3% 2% 2%
5%
88%
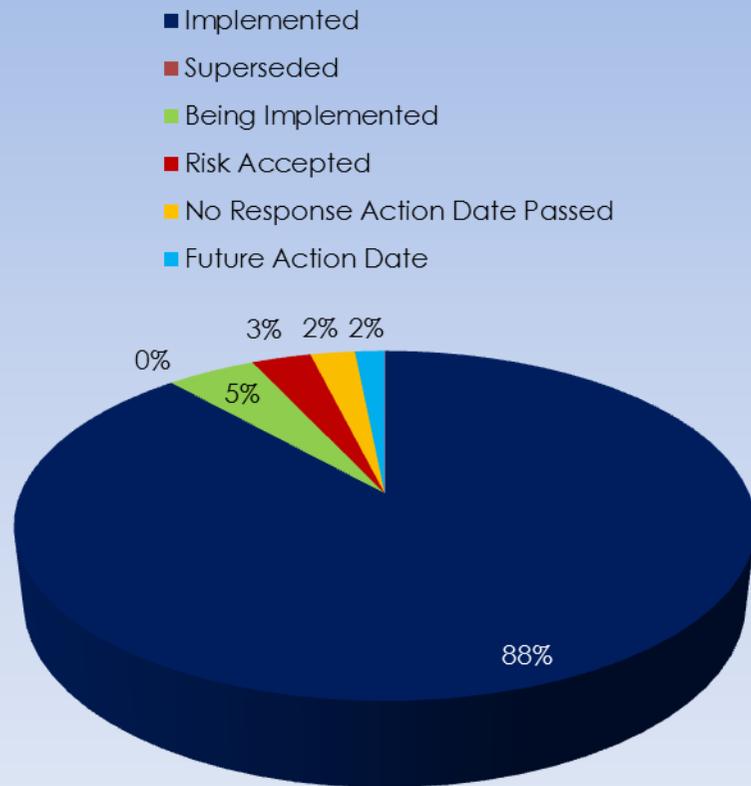
South Derbyshire - Recommendations Not Yet Implemented by Department
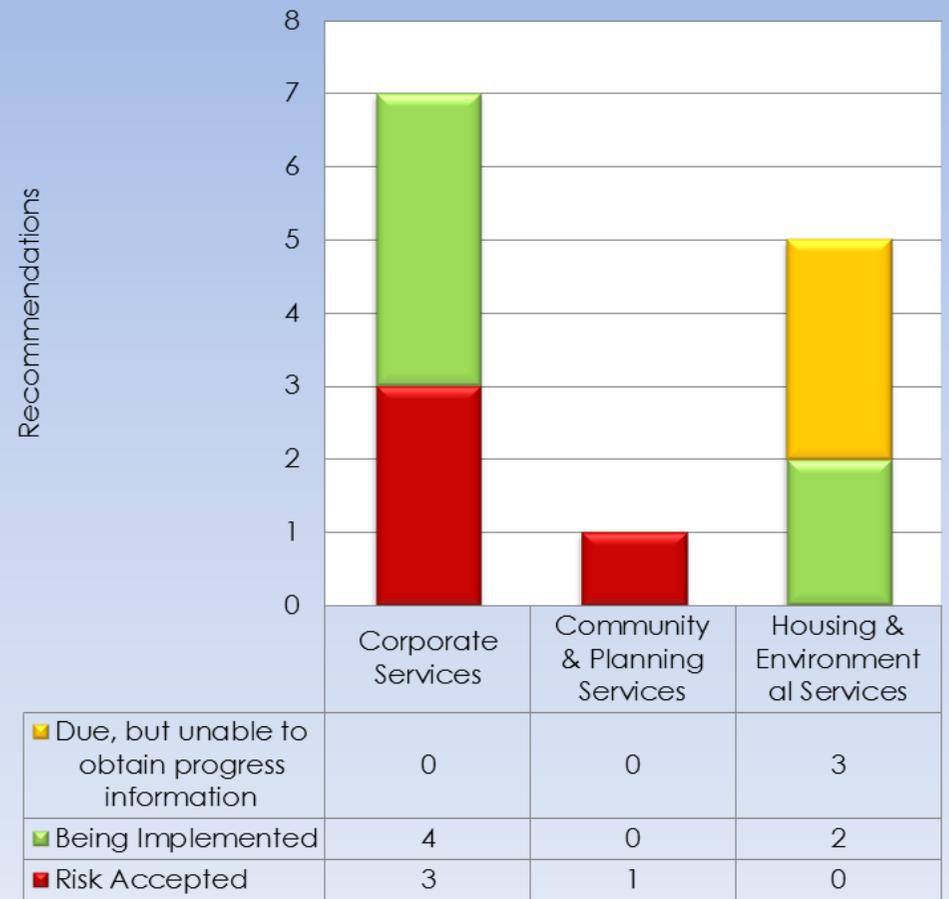
	Corporate Services	Community & Planning Services	Housing & Environmental Services
Due, but unable to obtain progress information	0	0	3
Being Implemented	4	0	2
Risk Accepted	3	1	0

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4 Recommendation Tracking (Cont.)

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

Accounting Systems
Control Issue - Financial Regulations and Financial Procedure Rules held on the Council's Intranet had not been dated or allocated with version control numbers to ensure that the latest versions were in use. Risk Rating – Low Risk Status Update – Version control has been implemented, but the Regulations and Rules will need to be updated for the recent restructure. Original Action Date   31 Mar 13   Revised Action Date   30 Sep 13

Risk Management
Control Issue - There was not a documented policy or procedure for reporting and management of incidents. Risk Rating – Low Risk 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. Original Action Date   31 Mar 13   Revised Action Date   30 Sep 13

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4 Recommendation Tracking (Cont.)

Recommendations Not Yet Implemented

Corporate Services

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   30 Nov 13

Housing & Environmental Services

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 -
Original Action Date   1 Apr 13   Revised Action Date

Waste Management
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. Revised action date to be determined.
Original Action Date   1 Apr 13   Revised Action Date

Control Issue - There were no officers at the Council depot who were responsible for monitoring CCTV and ensuring that it was operating effectively.
Risk Rating – Low Risk
Status Update -
Original Action Date   28 Feb 13   Revised Action Date

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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 where based on the employees personal judgement and discretion.
Risk Rating – Low Risk
Status Update –
Original Action Date   1 Apr 13   Revised Action Date

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 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.
Original Action Date   30 Jun 11   Revised Action Date   31 Jul 13