



South Derbyshire District Council – Internal Audit Progress Report

Audit Sub-Committee: 24th September 2014



Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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Summary

Role of Internal Audit

The Internal Audit Service for South Derbyshire District Council is provided by the Central Midlands Audit Partnership (CMAP). The Partnership operates in accordance with standards of best practice applicable to Internal Audit (in particular, the Public Sector Internal Audit Standards – PSIAS). CMAP also adheres to the Internal Audit Charter.

The role of internal audit is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

Recommendation Ranking

To help management schedule their efforts to implement our recommendations or their alternative solutions, we have risk assessed each control weakness identified in our audits. For each recommendation a judgment was made on the likelihood of the risk occurring and the potential impact if the risk was to occur. From that risk assessment each recommendation has been given one of the following ratings:

- Critical risk.
- Significant risk.
- Moderate risk
- Low risk.

These ratings provide managers with an indication of the importance of recommendations as perceived by Audit; they do not form part of the risk management process; nor do they reflect the timeframe within which these recommendations can be addressed. These matters are still for management to determine.

Control Assurance Definitions

Summaries of all audit reports are to be reported to Audit Sub-Committee together with the management responses as part of Internal Audit's reports to Committee on progress made against the Audit Plan. All audit reviews will contain an overall opinion based on the adequacy of the level of internal control in existence at the time of the audit. This will be graded as either:

- **None** - We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Limited** - We are able to offer limited assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Reasonable** - We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Comprehensive** - We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

This report rating will be determined by the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks. Any audits that receive a None or Limited assurance assessment will be highlighted to the Audit Sub-Committee in Audit's progress reports.

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Audit Coverage

Progress on Audit Assignments

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

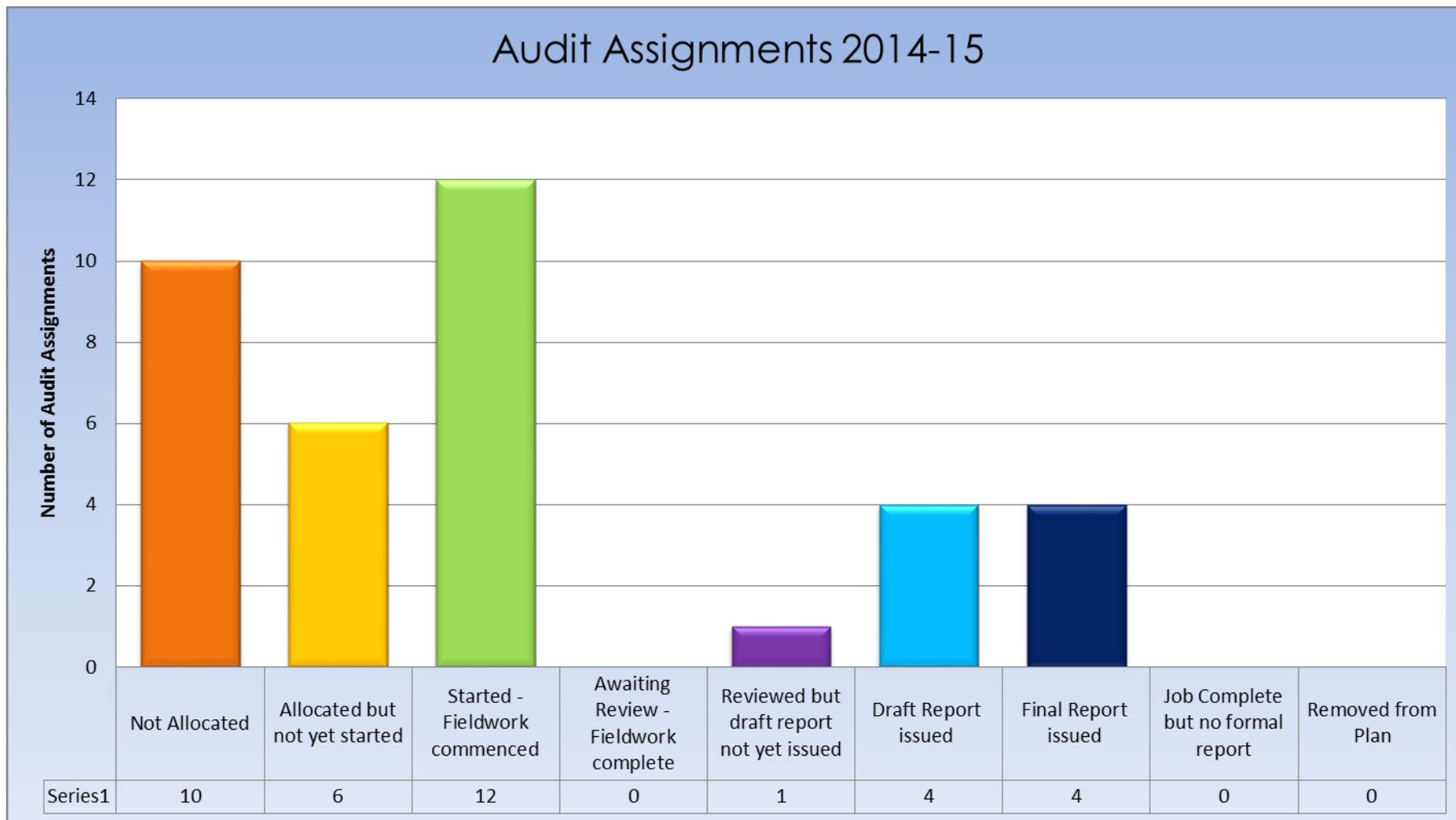
2014-15 Audit Plan Assignments	Type of Audit	Current Status	% Complete
Main Accounting System 2014-15	Key Financial System	Allocated	0%
PCI Compliance	Governance Review	In Progress	35%
Civica Security Assessment	IT Audit	In Progress	50%
CRM Security Assessment	IT Audit	In Progress	75%
Partnership Governance	Governance Review	Draft Report	95%
Safeguarding 2014-15	Systems/Risk Audit	In Progress	60%
Fixed Assets 2014-15	Key Financial System	Allocated	0%
Council House Sales	Systems/Risk Audit	Allocated	0%
Electoral Services	Systems/Risk Audit	In Progress	55%
Bereavement Services	Systems/Risk Audit	Reviewed	90%
Community Safety Partnership	Systems/Risk Audit	Final Report	100%
Economic Development	Systems/Risk Audit	Allocated	5%
Development Control	Systems/Risk Audit	In Progress	20%
Housing Repairs (Planned & Responsive Maintenance)	Systems/Risk Audit	Final Report	100%
Waste Management	Systems/Risk Audit	Allocated	5%
Fleet Management	Systems/Risk Audit	Draft Report	95%
Improvement Grants (Energy, Disabled Facilities etc.)	Systems/Risk Audit	In Progress	75%
Pollution Control	Systems/Risk Audit	In Progress	75%
Food Safety	Systems/Risk Audit	In Progress	75%
Licensing	Systems/Risk Audit	Draft Report	95%
Depot Health & Safety	Governance Review	In Progress	25%
B/Fwd - Creditors / Debtors 2013-14	Key Financial System	In Progress	75%
B/Fwd - Orchard IT Security	IT Audit	Final Report	100%
B/Fwd - Data Protection & Freedom of Information	Governance Review	In Progress	75%
B/Fwd - Business Continuity & Emergency Planning	Governance Review	Allocated	10%
B/Fwd - Tenants Arrears	Systems/Risk Audit	Final Report	100%
B/Fwd - Service Contracts	Procurement/Contract Audit	Draft Report	95%

Another 10 planned assignments (not shown above) have not been allocated yet.

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Audit Coverage

Progress on Audit Assignments Chart



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Audit Coverage

Completed Audit Assignments

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

- Community Safety Partnership
- Housing Repairs
- Orchard IT Security
- Tenants Arrears

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

Community Safety Partnership

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the activities of the Safer South Derbyshire Partnership, paying particular attention to key projects, financial management and information sharing with the key partnering organisations.

From the 15 key controls evaluated in this audit review, 12 were considered to provide adequate control and 3 contained partial 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:

- Terms and conditions of the grant funding had not been consistently met and there was not a process for monitoring the projects or maintaining adequate documentary evidence on the grant files. (Low Risk)
- Two grant allocations were made to officers working for the Council (one officer working directly for the SSDP). Records did not clearly demonstrate that potential conflicts of interest had been appropriately managed. (Low Risk)

- The current arrangements for reporting back to the Council and other partner organisations had not been clearly documented. (Low Risk)
- The Terms of Reference for the key Boards, Groups and Committees were not reviewed and updated on a regular basis, and did not always reflect current membership of the group, or equivalent. (Low Risk)

All 4 issues raised within this report were accepted and action was agreed to be taken to address 3 of the issues by 31st December 2014 and the final issue being addressed by 31st March 2015.

Housing Repairs

Overall Control Assurance Rating: **Reasonable**

This audit focused on responsive repairs and planned maintenance carried out during 2013-14 and the beginning of 2014-15.

From the 45 key controls evaluated in this audit review, 40 were considered to provide adequate control and 5 contained weaknesses. The report contained 3 recommendations, 1 of which was considered a low risk, 1 a moderate risk and 1 a significant risk. The following issues were considered to be the key control weaknesses:

- The inspectors were struggling to keep up with the workload due to technological issues and an increasing caseload. (Moderate Risk)
- The process for raising invoices in respect of rechargeable repairs had failed to function correctly, leaving a substantial proportion of debts not raised in 2012-13, 2013-14 and 2014-15. (Significant Risk)
- Data cleansing within the Orchard system was not being carried out regularly to identify where the records for individual jobs had not been fully updated. (Low Risk)

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All 3 issues made within this report were accepted. One issue was agreed to be addressed by the end of July 2014, a second by the end of August 2014 and the 1 remaining action was to be taken by 30th September 2014.

Orchard IT Security

Overall Control Assurance Rating: **Reasonable**

This audit focused on reviewing the efficiency and effectiveness of the design, operation and existence of internal controls and operating procedures for the Orchard application and the server supporting it.

From the 33 key controls evaluated in this audit review, 21 were considered to provide adequate control and 12 contained weaknesses. The report contained 8 recommendations, 4 of which were considered a low risk and 4 a moderate risk. The following issues were considered to be the key control weaknesses:

- The policies and procedures that governed the overall management and administration requirements for the Orchard application had not been defined and documented. This made it hard to determine whether appropriate management and administration practices were being implemented. (Low Risk)
- New user and reset passwords were not created completely randomly. The reset password was often set to whatever the system administrator thought of first. (Low Risk)
- There were 7 shared accounts that could allow unauthorised access to data and amendments to system parameters. (Low Risk)
- Complex account passwords were not enforced because they were not required to contain a numeric character and only had to be 4 characters in length. (Moderate Risk)
- We found that the latest version of the Orchard application software had not been installed. (Low Risk)
- The SDDC-VM-ORCH-L Server was missing 7 security patches and 2 service packs. 5 of these missing patches were ranked as

important, 1 as moderate and 1 was not ranked. This opens the Server to an array of attacks and risks. (Moderate Risk)

- There were 7 accounts on the SDDC-VM-ORCH-L Orchard Server with administrative privileges. Excessive administrator accounts create a larger attack vector which could compromise the server. (Moderate Risk)
- There were 6 user accounts on the SDDC-VM-ORCH-L server supporting the Orchard application that had non expiring passwords. Four of these were administrative accounts. (Moderate Risk)

All 8 control issues raised within this report were accepted and positive action was agreed to be taken to address 4 issues by the end of September 2014, another 3 by the end of October 2014, and the final issue to be addressed by 28th November 2014.

Tenants Arrears

Overall Control Assurance Rating: **Reasonable**

This audit focused on the controls in operation over rent arrears policies and procedures, rent arrears transactions and recovery and in addition how the Housing team's performance was monitored.

From the 17 key controls evaluated in this audit review, 13 were considered to provide adequate control and 4 contained weaknesses. The report contained 4 recommendations 3 of which were considered a low risk and 1 a moderate risk. The following issues were considered to be the key control weakness:

- The Council did not have a formal rent arrears policy. (Low Risk)
- The Business Support Team Leader had responsibility for setting up users and permissions, but was also a day- to-day user of the rent system. (Low Risk)
- The debt recovery agency (Medina) did not provide a list of the former tenant arrears they were trying to recover on behalf of the Council. (Low Risk)

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- The number of accounts with arrears had not been evenly allocated between the Housing Officers to ensure effective recovery. (Moderate Risk)

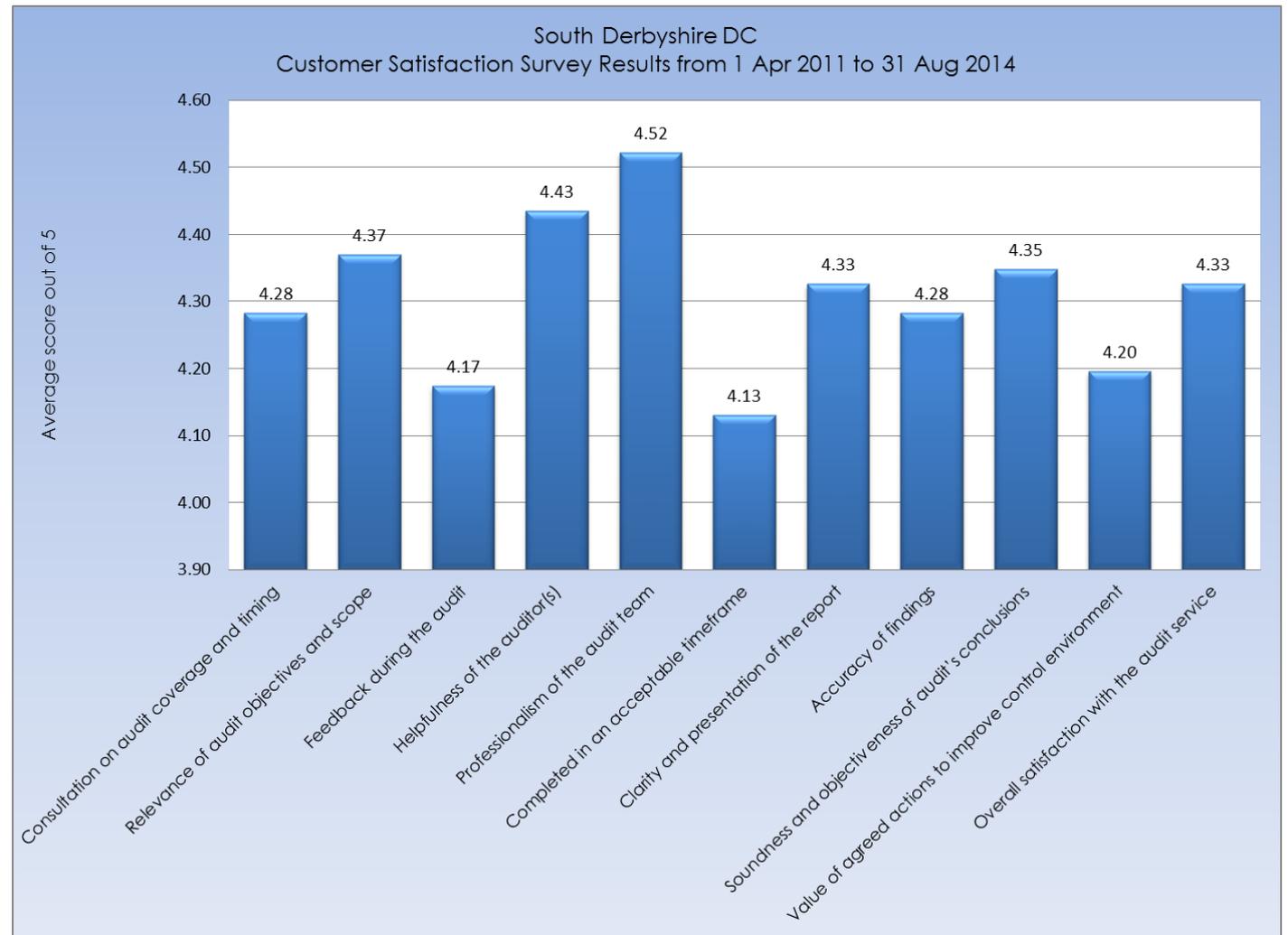
All 4 of the control issues raised within this report were accepted and positive action was agreed to be taken to address one by 31st August 2014, another by 30th September 2014, the moderate risk by 31st October 2014 and the final issue by 31st December 2014.

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Audit Performance

Customer Satisfaction

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. The chart across summarises the average score for each question from the 46 responses received between 1st April 2011 and 31st August 2014. The overall average score from the surveys was 47.4 out of 55. The lowest score received from a survey was 40, whilst the highest was 55 which was achieved on 3 occasions.



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Audit Performance

Customer Satisfaction

Since 1st April 2011, we have sent 58 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 58 sent we have received 46 responses.

Seven Customer Satisfaction Surveys have not been returned which have already been reported to this Committee and relate to assignments undertaken in previous plan years. Responses to these surveys will no longer be pursued as responses are unlikely to be reliable after this length of time.

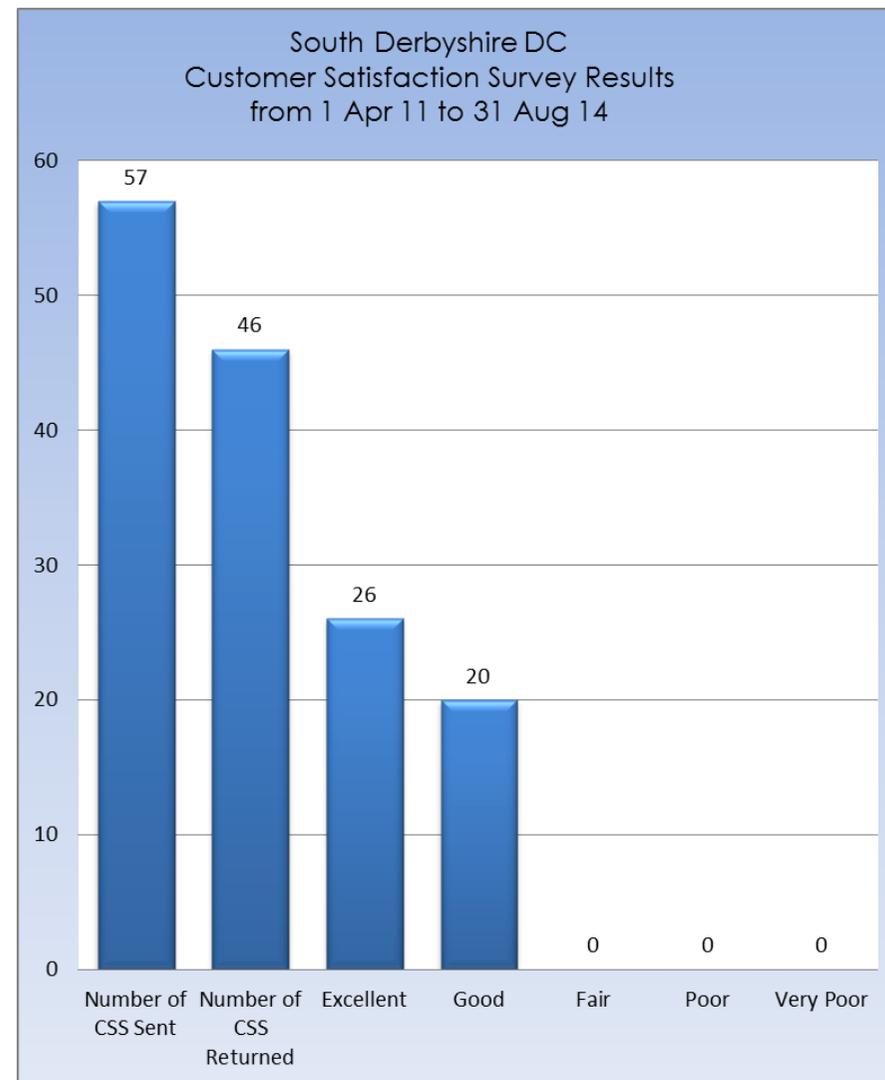
The following Customer Satisfaction Surveys have yet to be returned:

Job Name	CSS Sent	Officer
Data Quality 2013-14	04-Feb-14	Head of Policy and Communications
Main Accounting System 2013-14	12-Feb-14	Director of Finance & Corporate Services
Housing & Council Tax Benefit 2013-14	26-Feb-14	Client Services Manager
Orchard IT Security	27 Aug 14	Director of Finance & Corporate Services

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 26 of 46 responses categorised the audit service they received as excellent, another 20 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



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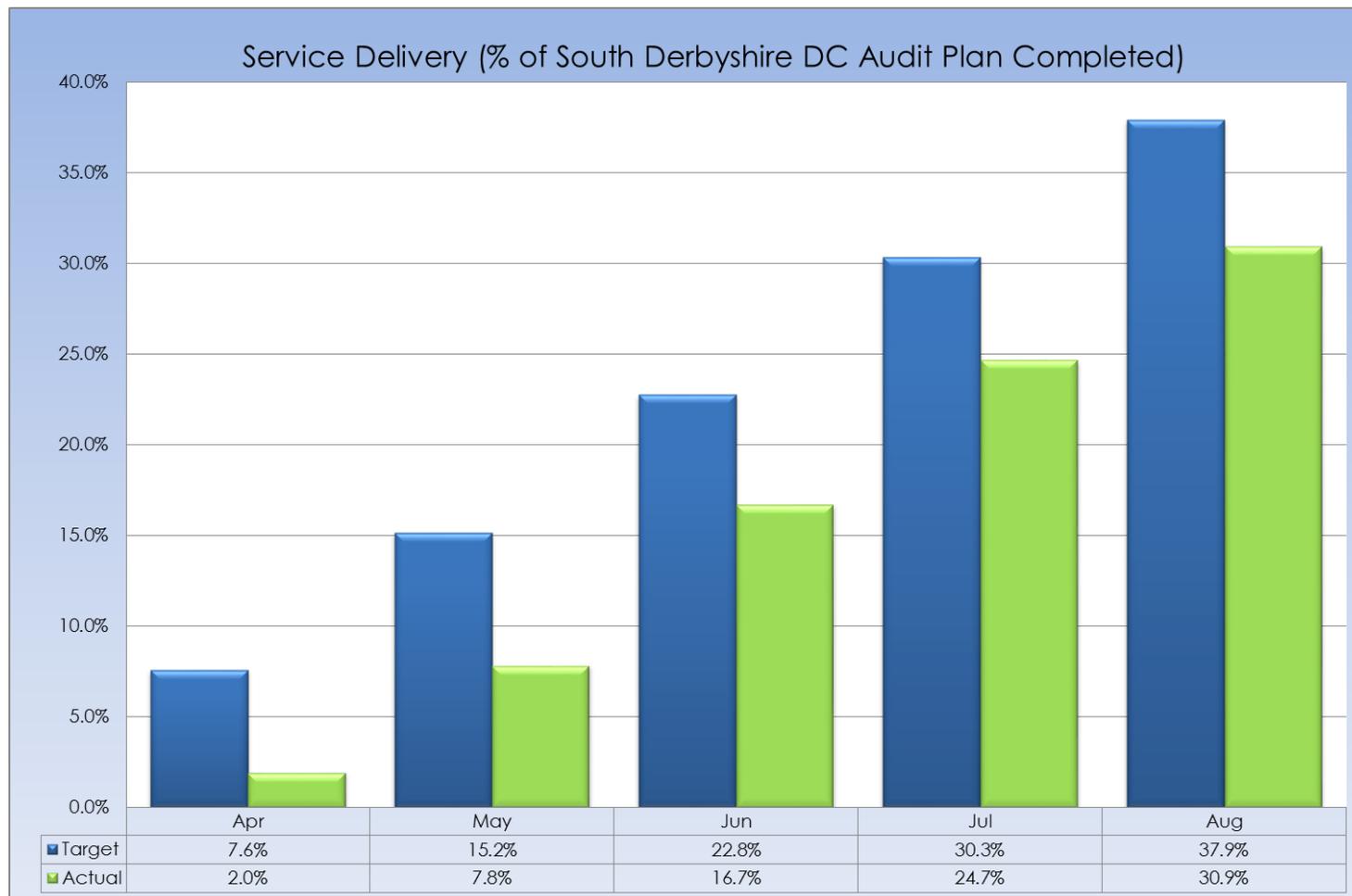
Audit Performance

Service Delivery (% of Audit Plan Completed)

At the end of each month, Audit staff provide the Audit Manager with an estimated percentage complete figure for each audit assignment they have been allocated. These figures are used to calculate how much of each Partner organisation's Audit Plans have been completed to date and how much of the Partnership's overall Audit Plan has been completed.

Shown across is the estimated percentage complete for South Derbyshire's 2014-15 Audit Plan (including incomplete jobs brought forward) after 5 months of the Audit Plan year.

The monthly target percentages are derived from equal monthly divisions of an annual target of 91% and do not take into account any variances in the productive days available each month.



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Recommendation Tracking

Follow-up Process

Internal Audit sends emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We request an update on each recommendation's implementation status, which is fed back into the database, along with any revised implementation dates.

Prior to the Audit Sub-Committee meeting we will provide the relevant Senior Managers with details of each of the recommendations made to their divisions which have yet to be implemented. This is intended to give them an opportunity to provide Audit with an update position.

Each recommendation made by Internal Audit will be assigned one of the following "Action Status" categories as a result of our attempts to follow-up management's progress in the implementation of agreed actions. The following explanations are provided in respect of each "Action Status" category:

- **Blank** = Audit have been unable to ascertain any progress information from the responsible officer or it has yet to reach its agreed implementation date.
- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.
- **Risk Accepted** = Management has decided to accept the risk that Audit has identified and take no mitigating action.
- **Being Implemented** = Management is still committed to undertaking the agreed actions, but they have yet to be completed. (This category should result in a revised action date).

Implementation Status Details

The table below is intended to provide members with an overview of the current implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations that have passed their agreed implementation dates.

	Implemented	Being implemented	Risk Accepted	Superseded	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	177	9	3	5	0	13	207
Moderate Risk	43	1	0	3	0	6	53
Significant Risk	9	0	1	0	0	0	10
Critical Risk	0	0	0	0	0	0	0
	229	10	4	8	0	19	270

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

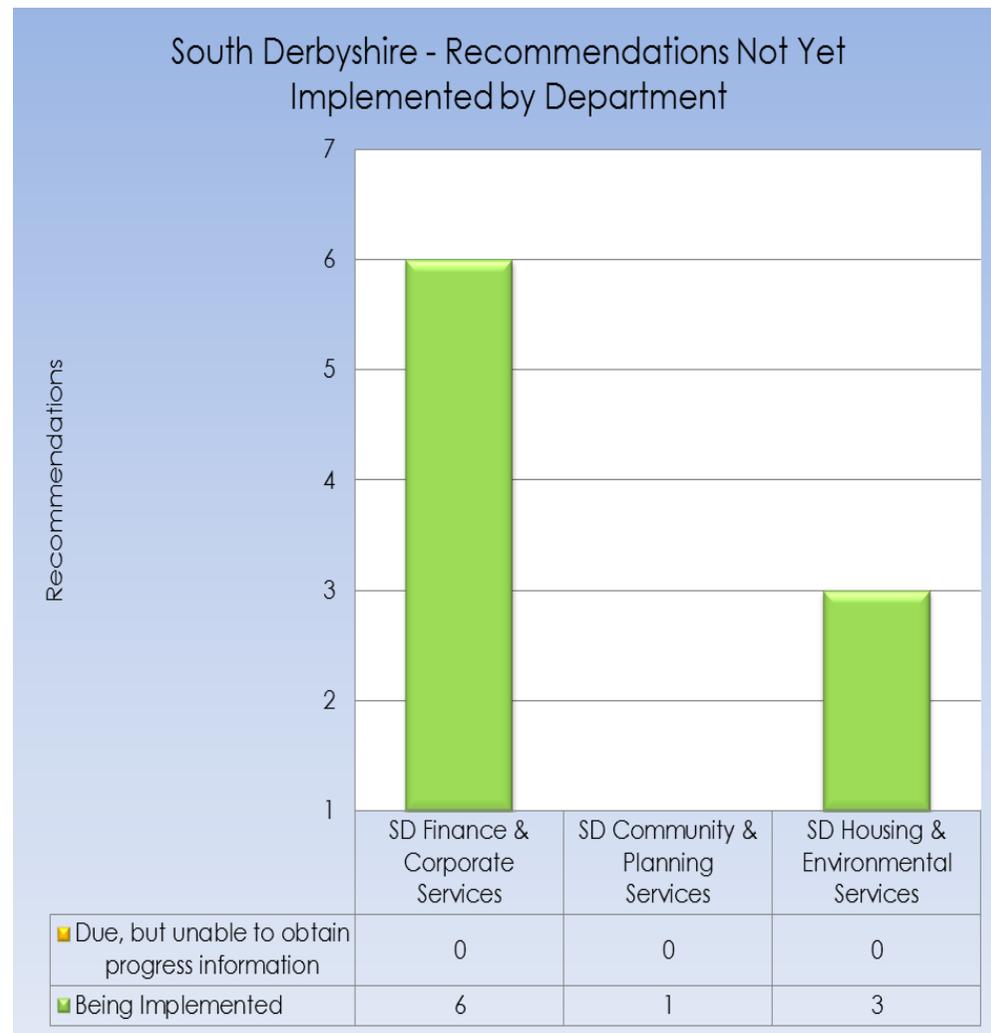
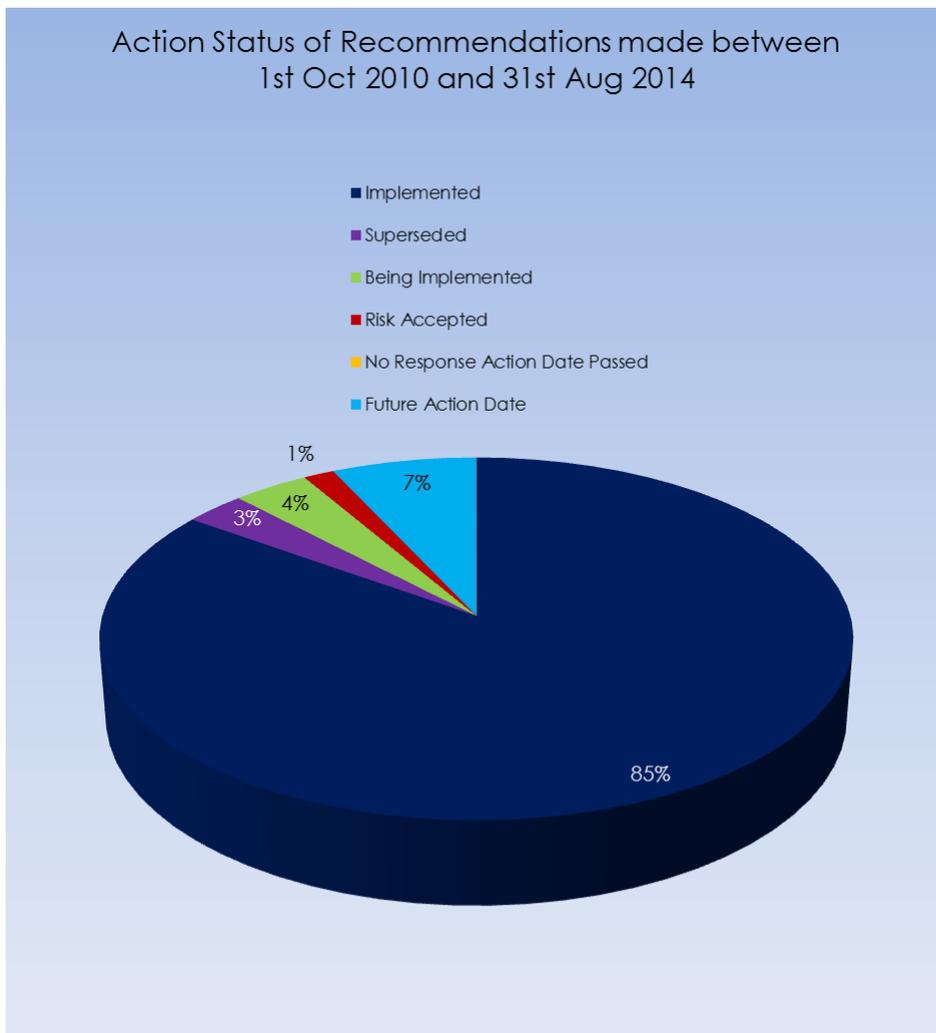
Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being implemented	6	1	3	10
Due, but unable to obtain progress information	0	0	0	0
	6	1	3	10

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. We will provide full details of each recommendation where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). The 4 recommendations shown above, where management has chosen to accept the risk, have already been reported to this Committee.

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Recommendation Tracking

Implementation Status Charts



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Recommendation Tracking

Recommendations Not Yet Implemented

Corporate Services

Car Allowances

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

Risk Rating – Low Risk

Status Update - Following the Budget Round for 2013/14 and the Council Restructure, it was anticipated that the Single Status Steering Group would be reconvened in 2013. This item will be considered, as planned, as part of the pay and grading review. A revised review date of March 2014 was given, but no action was taken during the year. The Council has recently approved to review its approach during 2014/15.

Original Action Date 30 Jun 11 **Revised Action Date** 31 Mar 15

Legal & Democratic Services

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

Risk Rating – Low Risk

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

Original Action Date 30 Nov 12 **Revised Action Date** 31 Mar 15

Corporate Governance

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

Risk Rating – Low Risk

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

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

Data Quality 2013-14

Control Issue – There was a documented methodology in place for this performance indicator. However, this did not clearly describe the method and format of data collection, the exact requirements for calculating the performance figure or detail the data source of the 'total gross useable floor space' used in the calculation.

Risk Rating – Low Risk

Status Update – This relates to the recording and reporting of a National Indicator regarding energy consumption. Following the Audit, a review is being undertaken regarding the data recorded and submitted into this indicator by external organisations who manage facilities on the Council's behalf. This has proved to be more of an issue than anticipated. This will be corrected for the half yearly performance monitoring reports post September 2014

Original Action Date 1 Apr 14 **Revised Action Date** 30 Sep 14

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Control Issue – Energy data had been incorrectly transferred to the Calculation Spreadsheet for 5 out of 18 entries sampled.

Risk Rating – **Low Risk**

Status Update – This relates to the recording and reporting of a National Indicator regarding energy consumption. Following the Audit, a review is being undertaken regarding the data recorded and submitted into this indicator by external organisations who manage facilities on the Council's behalf. This has proved to be more of an issue than anticipated. This will be corrected for the half yearly performance monitoring reports post September 2014

Original Action Date 1 Apr 14 **Revised Action Date** 30 Sep 14

Control Issue – The integrity of performance data had not been maintained throughout the process for calculating the performance figures.

Risk Rating – **Low Risk**

Status Update – This relates to the recording and reporting of a National Indicator regarding energy consumption. Following the Audit, a review is being undertaken regarding the data recorded and submitted into this indicator by external organisations who manage facilities on the Council's behalf. This has proved to be more of an issue than anticipated. This will be corrected for the half yearly performance monitoring reports post September 2014

Original Action Date 1 Apr 14 **Revised Action Date** 30 Sep 14

Community & Planning Services

Leisure Centres

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

Risk Rating – **Moderate Risk**

Status Update – Client & contractor and respective legal representatives are still in dialogue. Further requests have been made to follow up and finalise.

Original Action Date 25 Oct 13 **Revised Action Date** 31 Aug 14

Housing & Environmental Services

Tenants Arrears

Control Issue - The debt recovery agency (Medina) did not provide a list of the former tenant arrears they were trying to recover on behalf of the Council.

Risk Rating – **Low Risk**

Status Update – We did use to receive this information. Monthly updates from Medina will be re-instigated shortly.

Original Action Date 31 Aug 14 **Revised Action Date** 30 Sep 14

Housing Allocations

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

Risk Rating – **Low Risk**

Status Update - The whole Homefinders policy is being relaunched and will include guidance on reviews. The expected publication date for the Homefinders guidance is 31 August 2014.

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

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

Risk Rating – Low Risk

Status Update - Partially complete, as Homefinders now shows the number of bidders for recently advertised properties. The second phase, the publication of the number of each successful bidder will be published in a quarterly report. This is part of the new homefinders policy with an expected publication date of 31 August 2014.

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