



central midlands audit partnership

South Derbyshire District Council – Internal Audit Progress Report

Audit Sub-Committee: 19th June 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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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 2011-12 Audit Plan Assignments

Between 1st February 2012 and 31st May 2012, Internal Audit has spent a total of 84.75 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
Housing Benefits	Draft Report	11.00
Payroll	Reviewed	12.00
Financial Systems: Creditors & Debtors	Reviewed	17.75
HR Policies & Pre-employment Checks	Final Report	3.25
Planning Services	Reviewed	7.50
Rosliston Forestry Centre	Final Report	9.25
Academy IT System Security	Final Report	1.75
Accounting Systems	Fieldwork Complete	22.25
Total Days		84.75

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

- Rosliston Forestry Centre.
- Academy System Security.
- Pre-Employment Vetting.

The audit of Rosliston Forestry Centre attracted a 'Limited' Control Assurance Rating and is accordingly highlighted for Committee's attention, summaries of all reports finalised during the period follow:

Rosliston Forestry Centre Audit

Overall Control Assurance Rating: **Limited**

Rosliston Forestry Centre is operated by Aurora Country Developments in partnership with South Derbyshire District Council and the Forestry Commission. This audit focused on reviewing the procedures and processes in place for income collection and reconciliation at the Centre. Samples of transactions were checked to source documents.

From the 52 key controls evaluated in this audit review, 32 were considered to provide adequate control and 20 contained weaknesses. The report contained 3 recommendations all of which were considered a significant risk. The following issues were considered to be the key control weaknesses:

- The shared income arrangements at the Centre were based on accounting records and systems that were poorly controlled and a number of errors were identified. These errors had not been identified by the Council's current contract monitoring arrangements.
- A number of Aurora's key financial documents were prepared using spreadsheets. Checks on the input, integrity and robustness of the spreadsheets had not been undertaken.
- Not all income received by Aurora for activities at the Centre had been recognised and accounted for as part of the monthly settlement process.

All 3 of the control issues raised within this report were accepted and positive action was to be taken to address the issues raised by 30th June 2012.

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2 Audit Coverage (Cont.)

Academy System Security Audit

Overall Control Assurance Rating: **Reasonable**

This audit focused on the security, management and administration of South Derbyshire District Council's Academy System and Benefits data. It addressed control issues for the Academy server's guest operating system layer, the Ingres database layer, and the Academy application layer.

From the 30 key controls evaluated in this audit review, 16 were considered to provide adequate control and 14 contained weaknesses. The report contained 5 recommendations, 2 of which were considered a low risk and 3 were considered a moderate risk. The following issues were considered to be the key control weaknesses:

- There were a number of shared and generic user accounts active in the System. Generic user accounts do not allow for individual accountability and cause issues with account management procedures around termination and expiration.
- There were no documented and defined policies and procedures that governed the overall management and administration requirements for the Academy application. This made it difficult to determine whether appropriate management and administration practices were being implemented.
- Two of the local accounts on the Academy Server were found to have weak corresponding passwords. One of these accounts was a member of the local administrators group.
- There were a number of file shares on the Academy server openly accessible to 'Everyone' with an account for the Council's Network. Some of these shares appeared to house extracts and backup copies of data from the Academy system.

- The Academy Server was still running service pack 1 of Windows Server. Security updates were typically service pack dependant, so the newer security updates won't have been applied to the server. Subsequently this leaves the server vulnerable to exploitation.

All 5 of the control issues raised within this report were accepted and positive action in respect of 3 recommendations were to be completed by 1st May 2012, and the final 2 recommendations were to be completed by 1st December 2012.

Pre-Employment Vetting Audit

Overall Control Assurance Rating: **Reasonable**

This audit focused on reviewing the procedures and processes in place for pre-employment vetting and checking a sample of transactions to source documents.

From the 25 key controls evaluated in this audit review, 10 were considered to provide adequate control and 15 contained weaknesses. The report contained 6 recommendations 4 were considered a low risk, 1 a moderate risk and 1 a significant risk.

The following issues were considered to be the key control weaknesses:

- HR was not aware of whether certain agencies used to recruit temporary workers had formal agreements with the Council over what pre-employment vetting they should perform.
- The Council did not undertake checks to ensure that agencies were undertaking appropriate pre-employment vetting.
- From the records held by HR there was insufficient evidence to demonstrate that the required level of pre-employment checking had been carried out by recruiting officers.

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2 Audit Coverage (Cont.)

- The guidance on pre-employment checks given to recruiters did not require applicants to provide proof of a permanent address or a signed declaration as to the truth of their application as recommended in the CPNI Best Practice standards.
- The Council did not carry out financial vetting.
- An internal candidate was appointed to a post without being subject to vetting procedures.

All 6 of the control issues raised within this report have been accepted and positive action will be taken to address the issues raised by 31 May 2012.

Remaining 2011-12 Audit Assignments

In the coming weeks, we are scheduled to issue the final report on Housing & Council Tax Benefits and the draft audit reports on Planning Services, Financial Systems (i.e. Creditors and Debtors), Accounting Systems and Payroll.

We are still attempting to establish whether the audit work on Cash and Growth Point, as reported to this committee, were completed by the former Internal Audit Service. Once established, we will report on the findings as appropriate.

Progress on 2012-13 Audit Plan Assignments

Between 1st February 2012 and 31st May 2012, Internal Audit has spent a total of 68.75 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
Health & Safety	Fieldwork Complete	11.00
PCI Compliance	In Progress	5.00
Safeguarding	In Progress	8.00
Waste Management	In Progress	4.50
Main Accounting / Budgetary Control etc.	Not Started	0.00
Treasury Management / Insurance	Not Started	0.00
Council Tax / NNDR / Cashiering	Not Started	0.00
Housing & Council Tax Benefit	Not Started	0.00
Payroll / Officers Expenses & Allowances	Not Started	0.00
Creditors / Debtors	Not Started	0.00
Fixed Assets	Not Started	0.00
Procurement	Assigned	0.75
Service Contracts	Not Started	0.00
Risk Management	In Progress	5.50
Data Quality & Performance Management	Not Started	0.00
Anti-Fraud & Corruption (NFI, etc.)	Not Started	0.00
IT Application	Not Started	0.00
IT Infrastructure	Not Started	0.00
People Management	Not Started	0.00
Housing Repairs	Not Started	0.00
Audit Sub Committee / Follow-ups	Ongoing	9.75
Advice / Emerging Issues etc.	Ongoing	23.75
External Audit / Audit Planning	Ongoing	0.50
Total Days		68.75

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3 Audit Performance

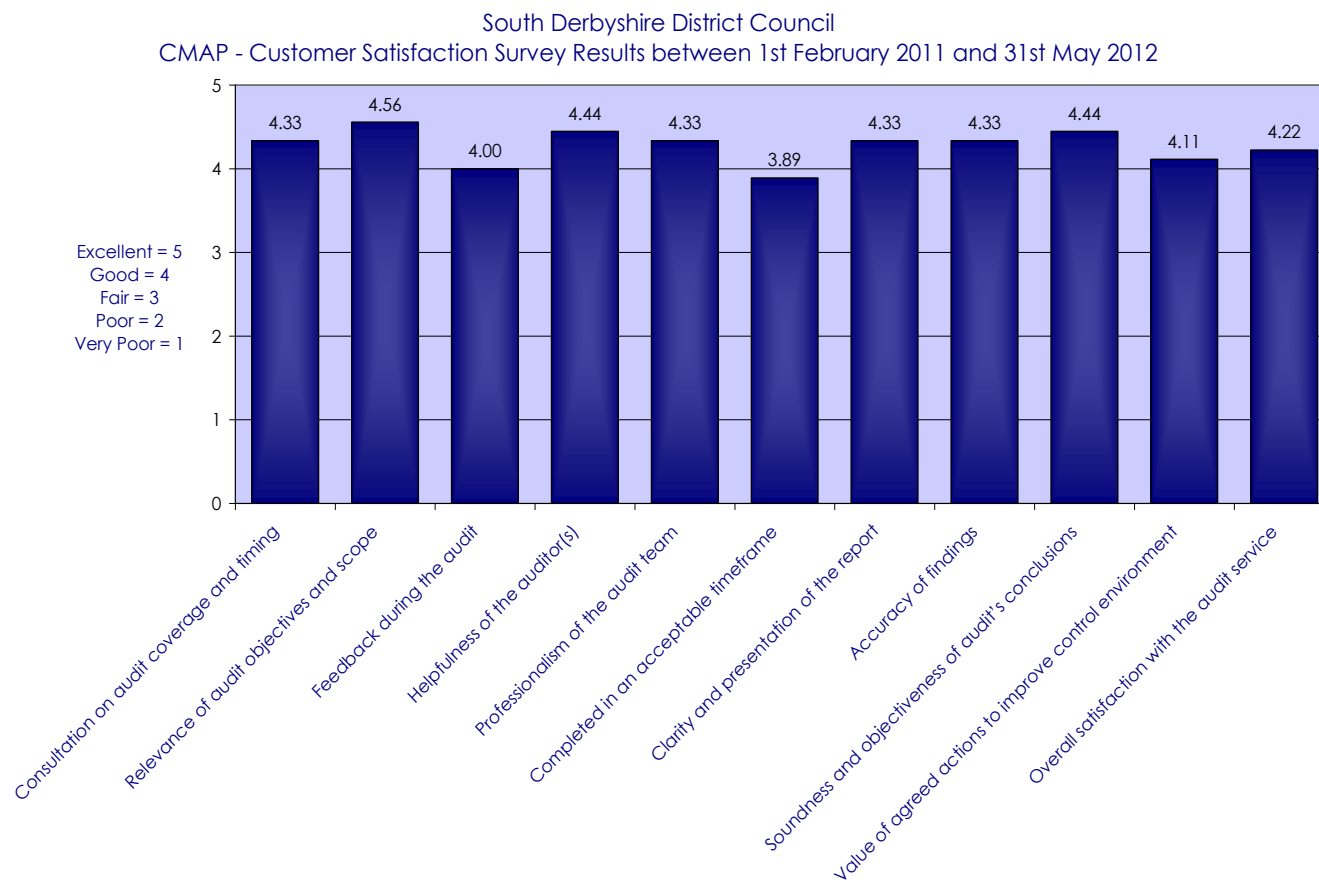
Customer Satisfaction

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 9 responses received. The average score from the surveys was 47 out of 55. The lowest score received from a survey was 42, while the highest was 54.

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 5 of 9 responses categorised the audit service they received as excellent, another 4 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



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3 Audit Performance (Cont.)

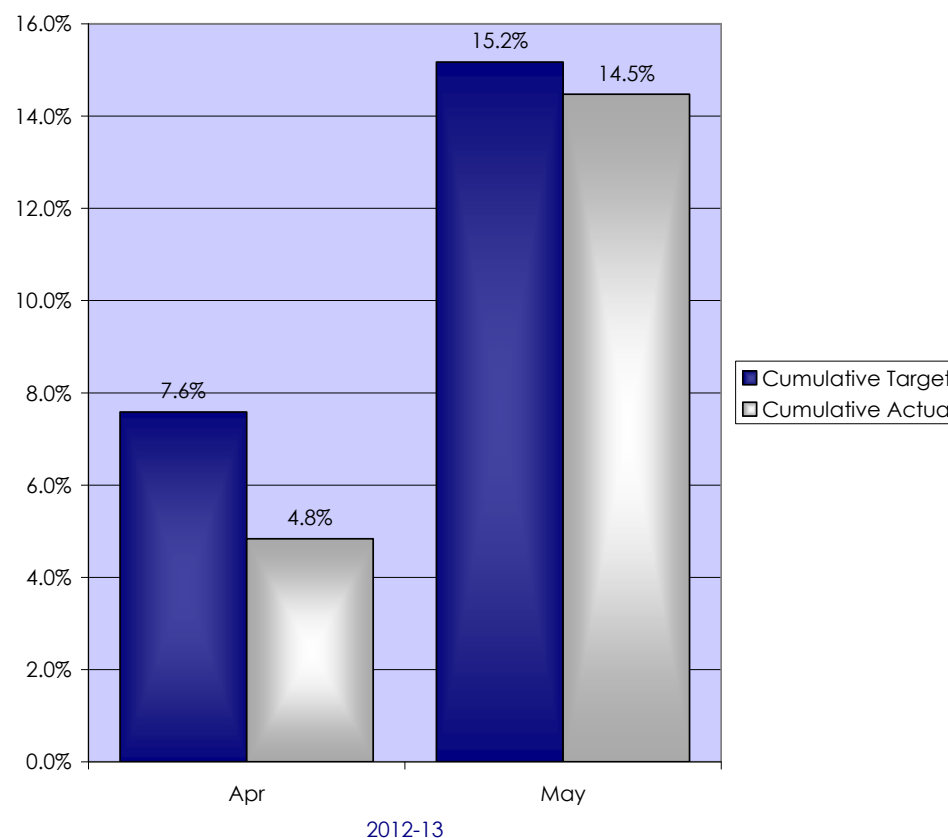
Service Delivery (% of Audit Plan Completed)

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

Shown across is the estimated percentage complete for South Derbyshire's 2012-13 Audit Plan (including incomplete jobs brought forward) after two 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.
- **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 April 2012. This is to allow time for those recommendations to have reached their agreed implementation dates.

	Implemented	Superseded	Being implemented	Not implemented	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	22	0	9	0	0	2	33
Moderate Risk	8	0	1	0	1	1	11
Significant Risk	0	0	0	0	2	1	3
Critical Risk	0	0	0	0	0	0	0
	30	0	10	0	3	4	47

The table below shows those recommendations not yet implemented by Department

Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being implemented	8	0	2	10
Due, but unable to obtain progress information	3	0	0	3
	11	0	2	13

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4 Recommendation Tracking (Cont.)

Implementation Status Details

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> <p>Original Action Date 30 Jun 11 Revised Action Date 31 Mar 13</p>

FOI & Data Protection
<p>Control Issue - The working procedures and processes of the officer with Data Protection responsibilities had not been documented at the time of the Audit.</p> <p>Risk Rating – Low Risk</p>
<p>Status Update – Guidance being sought on content.</p> <p>Original Action Date 31 Aug 11 Revised Action Date 31 Jul 12</p>

FOI & Data Protection
<p>Control Issue - The Council did not have a central register of all data collection forms and information systems that collected and processed personal data.</p> <p>Risk Rating – Low Risk</p>
<p>Status Update - All data collection forms need more work.</p> <p>Original Action Date 31 Aug 11 Revised Action Date 31 Jul 12</p>
<p>Control Issue - Fair processing notices had not been documented on collection forms for a sample of data collection forms received from various departments across the Council. In addition, employees interviewed were not aware:</p> <ul style="list-style-type: none"> • Of what constituted data that falls under the remit of the Data Protection Act. • That there was a requirement to have a fair processing notice. • Of their responsibility to verbally communicate a fair processing notice when completing forms on a customer's behalf. <p>Risk Rating – Moderate Risk</p>
<p>Status Update - FP notices to be documented on all data collection forms by 31 July 2012.</p> <p>Original Action Date 31 Aug 11 Revised Action Date 31 Jul 12</p>

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Corporate Services (Cont.)

FOI & Data Protection			
<p>Control Issue - The backend database for the Flare system was accessible to the domain users group. This increases the likelihood the data held within could be subject to unauthorised and inappropriate access.</p> <p>Risk Rating – Low Risk</p>			
<p>Status Update</p>			
Original Action Date	31 Jul 11	Revised Action Date	31 Jul 12

Legal & Democratic Services			
<p>Control Issue - No checks were undertaken by the Elections Office to ensure payments made to staff who had undertaken election duties were all present and correct.</p> <p>Risk Rating – Low Risk</p>			
<p>Status Update - Hoping that election payments to staff will be via BACS through the Xpress software system and so avoid going through Northgate payroll. Awaiting the approval of the CE/RO to pursue it further.</p>			
Original Action Date	30 Nov 11	Revised Action Date	31 Jan 13

Legal & Democratic Services			
<p>Control Issue - Land Charge payments received by BACS and debit cards could not be readily matched to a debtor within the Council's accounting records, because of a lack of descriptive narrative.</p> <p>Risk Rating – Low Risk</p>			
<p>Status Update - This should now be resolved and implemented following a meeting with Accountancy planned for 13/06/2012.</p>			
Original Action Date	30 Apr 12	Revised Action Date	30 Jun 12
<p>Control Issue - Independent checks were not being undertaken to ensure all income received in respect of Land Charges applications was banked correctly, promptly and in full.</p> <p>Risk Rating – Low Risk</p>			
<p>Status Update - This should now be resolved and implemented following a meeting with Accountancy planned for 13/06/2012.</p>			
Original Action Date	30 Apr 12	Revised Action Date	30 Jun 12

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Corporate Services (Cont.)

Academy IT System Security
<p>Control Issue - There were a number of active shared and generic user accounts active in the System. Generic user accounts don't allow for individual accountability and cause issues with account management procedures around termination and expiration.</p> <p>Risk Rating – Moderate Risk</p>
<p>Status Update</p> <p>Original Action Date 31 May 12 Revised Action Date</p>
<p>Control Issue - 2 of the local accounts on the Academy Server were found to have weak corresponding passwords. 1 of these accounts was a member of the local administrators group.</p> <p>Risk Rating – Significant Risk</p>
<p>Status Update</p> <p>Original Action Date 31 May 12 Revised Action Date</p>
<p>Control Issue - There were a number of shares on the Academy server openly accessible to Everyone with an account for the SDDC Network. Some of these shares appeared to house extracts and backup copies of data from the Academy system.</p> <p>Risk Rating – Significant Risk</p>
<p>Status Update</p> <p>Original Action Date 31 May 12 Revised Action Date</p>

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 – Significant 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.</p> <p>Original Action Date 30 Jun 11 Revised Action Date 15 Jul 12</p>
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 - The process is likely to remain as such for the next few months whilst there is a restructure and as Licensing are due to fall under a new division. To be reviewed again in 6 months.</p> <p>Original Action Date 30 Sep 11 Revised Action Date 30 Sep 12</p>