
REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	16 th June 2010	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	TONY STAMPER (595706)	DOC:
SUBJECT:	Summary of Internal Audit reports 2009/10 (February – May).	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE:

1.0 Recommendations

1.1 The Committee are asked to consider the Summary of Audit Reports and to make recommendations to Finance and Management Committee.

2.0 Purpose of Report

2.1 In accordance with the terms of reference to provide members with information on specific Internal Audit reports.

3.0 Executive Summary

3.1 In respect of the audit work undertaken, this report summarises recommendations, categorised as high, from individual audit reports. Internal Audit provides assurance that the Council's key financial systems can be relied upon and that a sound system of internal control exists.

4.0 Detail

4.1 The Internal Audit team carries out audit work in accordance with the Council's Strategic Audit Plan.

4.2 Reports and memorandum are produced for many of the areas of audit work detailing recommendations for improvements in internal control.

4.3 Recommendations are categorised dependent on the degree of risk identified.

4.4 Managers agree the recommendations and their implementation is planned.

4.5 A summary of reports, recommending improvements to potential high-risk control weaknesses, is attached (Appendix 1). The summary also includes,

when appropriate, progress on the implementation of recommendations previously reported and any related detailed reports requested by Members.

4.6 During this period Internal Audit has undertaken work on:

- a. Etwall Leisure Centre – the service has undertaken extensive audit work during the period. This work has been divided into two separate audits, phase 1 and 2. Phase 1 has dealt with the financial and administrative systems and is at draft report stage. Phase 2 is underway and is focussed on the contractual elements of the construction of the new centre.
- b. Council Tax - an audit has been completed on the Council Tax function examining the key controls. This work involves examining the Council Tax Base setting, opening Parish debits, collection rate monitoring, valuation, billing, amendments, reliefs, discounts, refunds and cash postings identifying and evaluating the controls used at every stage.
- c. NNDR – a section 151 audit was undertaken on the NNDR function. The system is examined in much the same way as Council Tax as there are common processes. The management control information was verified after a recent software release to the Academy system failed to reinstate the control totals correctly.
- d. Payroll – A full system audit has been completed on the payroll function. This included all of our individual payrolls namely salaries, wages, elections and Members.
- e. Cash – The cash receipting and posting systems have been audited during the period.
- f. Risk Management – an audit has examined the risk management process and assessed the proposed changes to ensure the procedure is more embedded within the Council. The risk registers are being updated as part of the Service Planning process.
- g. Rent – an audit is in progress on the rent accounting system
- h. Contract Audit – further work has been undertaken on the corporate partnering contractual process.

The audit service has given advice on control and corporate governance issues. Managers who are continually looking at improving their services and systems require internal control opinions on proposed changes to procedures and working practices.

4.7 The Internal Audit Service has completed 90.78% of the planned audit days up to the end of March 2010 against the planned target of 90%.

4.8 A more detailed analysis against the various elements of the Audit Plan is attached at Appendix 2.

5.0 Financial Implications

5.1 None stemming directly from this report.

6.0 Corporate Implications

6.1 Communicating the work of Internal Audit supports the Council's governance and control environment.

7.0 Community Implications

7.1 None stemming directly from this report.

8.0 Conclusions

8.1 Internal Audit reporting is a key process in ensuring the Council's internal control framework has effective systems to safeguard both the services and finances of the Council.

9.0 Background Papers

9.1 None

Summary of Audit Reports**Appendix 1**

Period: February - May

Date: June 2010

Type: System and Probity

Reporting Criteria: Material Systems and audits with high category risks

Recommendation category: High

Introduction

Internal Audit undertakes a programme of work each year detailed in the annual audit plan. This work ranges from comprehensive system reviews, audits and investigations through to control advice and internal check responsibilities. Management is apprised of the outcome of such work in reports, memorandum, e-mails and personal contact. Recommendations are made and agreement is sought on the implementation of these, in the form of management responses and/or action plan.

Recommendations are categorised high, medium or low. The categorisation criteria are determined from a combination of the identified control weakness and the effect of not implementing the recommendation. The reporting criteria details audits with high category recommendations. South Derbyshire also includes details of those audits that are part of the joint working arrangements with the External Auditor, known as material systems.

Format

There are three types of report namely:

A. Specific Audit Report Summary

Each audit, which meets the reporting criteria, is summarised on a standard form. The auditor details the nature and type of audit and the following:

1. Introduction – this gives a background to the service, system or function that has been audited
2. Scope of Audit – this states how the audit is undertaken and what has been examined.
3. Recommendations – this section details the high category recommendations.
4. Governance Statement Assessment – this part informs the annual audit assurance statement (part of the Governance Statement evidence) on the level of control and risk within the area being audited.

B. Follow-up summary

This report monitors the progress in implementing high category recommendations previously found on an initial summary report. It is essentially an update that allows the Sub-Committee to see the progress being made on the implementation of each recommendation. It follows the same general layout as the previous report but includes a brief progress statement until such time as the recommendations are fully implemented.

C. Detailed Reports requested by Members.

This requested report goes into greater detail than the previous two types of summaries and applies to any audit summary report containing high-risk weaknesses where Members request more information.

Summary Reports appended**Part A. Specific Audit Report Summaries**

A.1 Council Tax 2009/10

A.2 NNDR 2009/10

A.3 Bank Reconciliation (interim)

The above are material systems but do not contain any high category recommendations.

Type: System

SUBJECT: Council Tax

Date: April 2010

Introduction

The system is used to administer the Authority's billing and collection of Council Tax for the District of South Derbyshire. The Net annual charge for 2009/10 is £45.7M and the Authority has a target collection rate of 99.0%, after adjustments in the year.

Scope and Coverage

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

The following areas were examined, Council Tax Base setting, opening Parish debits, collection rate monitoring, valuation, billing, amendments, reliefs, discounts, refunds, cash postings, ledger posting and reconciliations.

This audit is a key control audit undertaken as part of the section 151 work for 2009-10 accounts process.

Recommendations

High/Significant risk recommendations – none

A number of recommendations were made all of which were either medium or low risk.

Governance Statement assessment

The Academy Council Tax system has been operating for just over two years and the control information has been extensively examined. No major control weaknesses were identified during the audit.

Type: System

SUBJECT: NNDR

Date: May 2010

Introduction

The system is used to administer the Authority's billing and collection of National Non-Domestic Rates for the District of South Derbyshire. The total annual charge for 2009/10 is £21.3M and the Authority has a target collection rate of 98.5%, after adjustments within the year.

Scope and Coverage

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

All documentation has been updated as appropriate. Findings, conclusions and recommendations have been discussed with management prior to being included in a formal report or memorandum.

The following areas were examined, valuation, calculation, billing, collection rate monitoring, amendments, reliefs, discounts, refunds, cash postings, ledger posting and reconciliations.

The control information and administrator functions were examined in the Academy computer system for NNDR. A software update in March 2010 affected the integrity of the overall system management control information. The information was recreated from the data for final accounts purposes and the software supplier is issuing a further release to cure the problem.

Recommendations

High/Significant risk recommendations – none

A number of recommendations were made all of which are low/medium risk.

Governance Statement Assessment

Although the overall system management control information was affected by the software release, other management data was available to recreate this control information. The day to day NNDR functions are generally operating well.

Type: System **SUBJECT: Bank Reconciliation** Date: May 2010

Introduction

An annual review was undertaken on the Bank Reconciliation process to confirm how the process operates and verify agreement with the general ledger.

Scope and Coverage

The audit review was undertaken using the systems-based auditing approach, identifying the system and controls, evaluating and testing in relation to the system objectives.

This audit is at **interim** stage. Verification to the main accounting system has been completed and further work is continuing. All documentation has been updated as appropriate. Findings, conclusions and recommendations will be discussed with management prior to inclusion in a formal report or memorandum.

The Bank Reconciliation process performs its primary role in agreeing the cash book to the bank account(s) but additionally it is used for verifying the integrity of the ledger. The audit has examined the March 2010 main reconciliation and the payment account reconciliation in terms of completion and authorisation.

Recommendations

At this stage of the audit there are no recommendations

Governance Statement Assessment

Monthly agreement of the general ledger cash account to the cashbook is now an integral part of the bank reconciliation process. The 2009/10 monthly bank reconciliations have been undertaken in a timely manner. This is an interim report to confirm the completeness of the ledger.

AUDIT CATEGORY - 2009/10	Audit Team	Specialists	%	Qtr 1	Qtr2	Qtr3	Qtr4	Total
Total available days less leave etc	620	20	640					
PLANNED AUDITS/ AUDIT WORK	325		50.78%	75	60	67	87	289
CONTINUOUS AUDIT	4	4	0.63%	1	1	1	0	3
SPECIALIST AREAS:								
a. Computer	50	20	10.94%	9	8	12	9	38
b. Contract	44		6.88%	9	9	10	15	43
MANAGEMENT	60	60	9.38%	11	10	12	15	48
OTHER:	40		6.25%	10	17	13	6	46
TRAINING, FURTHER EDUCATION	40	40	6.25%	6	8	15	10	39
ROUTINE DUTIES	57		8.91%	17	21	13	24	75
TOTAL	620	20	100.00%	138	134	143	166	581
				21.56%	20.94%	22.34%	25.94%	90.78%
				Checksum			90.78%	581

Audit Reports	Type	Risk Rating	Risk Rating post audit work	Recommendations			Total	Time taken in days		Review date	Notes
				High	Medium	Low		Plan	Actual		
Sundry Debtors	System	Low	No Change			2	8	8	Mar-10		
Housing Benefits	System	Low	No Change		1		10	12	Mar-10		
Payments account reconciliation	System	Medium	Low			0	1	1	May-10	Reconciliation verified	
Section 106 agreements	System	Medium	Low	1		4	6	10	Feb-10	A full review was undertaken	
Council Tax	System	Low	No Change		1	2	10	10	Mar-10		
NNDR	System	Low	No Change		1	2	8	8	Mar-10		
Main Accounting	System	Low	No Change			0	10	9	Jun-10		
Academy Ctax management control information	Computer Application	Low	No Change			0	1	1	May-10	Computer audit	
Academy NNDR management control information	Computer Application	Medium	Low			0	2	2	May-10	Computer audit	
Bank Reconciliation	System	Low	No Change			0	4	4	Jun-10		
Creditors	System	Medium	Low			2	17	16	Sep-10	Full audit for 2008-09 & 2009-10	
New Monthly Cheque reconciliation system.	IC assessment	High	Low			0	0	3	Jun-10		
Treasury Management	System	Low	No Change			0	8	8	Nov-10		
Capital Monitoring - MRA	Investigation	N/A	No Change		2	13	15	10	May-10		
Trade Refuse	System	Low	No Change			2	0	6	Apr-10		
Gas Safety	Compliance	New Audit	Low	1		4	10	9	Aug-10		
Risk Management	System	Medium	Low		1	2	3	6	Aug-10		
Partnership - Growth point	System/Grant	Low	Low			1	5	7	Mar-11		
Payroll	System	Low	Low			3	14	16	Mar-11	Full audit for 2008-09 & 2009-10	