

**Summary of Audit Reports****Appendix 1**

Period: February – May

Date: June 2011

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 Treasury Management****A.2 Debtors****A.3 Bank Reconciliation**

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

**Category Definitions****Category – High**

Necessary due to statutory obligation, legal requirement, council policy or involves major risk of loss/damage to Council assets, information or reputation.

Immediate management action required – should be reported to the Audit Committee.

**Category – Medium**

This could cause limited loss of assets, information or adverse publicity. Necessary for sound internal control and confidence in the system to exist.

Significant points are followed-up within the procedure (at the next audit for an annual audit and 6 months for all others).

**Category – Low**

Current procedure is not best practice and could lead to minor inefficiencies.

This is followed-up as for medium within the procedure

Type: System **SUBJECT: Treasury Management** Date: March 2011

### **Introduction**

The Authority uses its Treasury Management policy to help manage its cash flow throughout the financial year by borrowing or investing funds on a short-term basis. The Authority has been debt free since 2004 with the exception of a £1M LOBO that was taken on favourable fixed rate terms and contains a break clause that allows the Authority to repay, with no penalty, if the lender increases the interest rate. The lender did not invoke the option to increase the interest rate during 2010/11 therefore the Authority, to avoid penalty charges for early repayment, remains tied to this agreement.

In recent years the Authority has been in a position to invest surplus cash on a short-term basis to meet its cash flow requirements within the financial year. Surplus cash up to £7.5m can be transferred to the Authority's higher interest account with the Bank of Scotland (BoS) and then recalled depending on cash flow requirements. Transfers from the Co-Op Bank to the Bank of Scotland are classed as 'specified investments' and have realised better returns than leaving the funds in the Council's Reserve Account held with the Co-Op Bank. The Authority has also opened a Liquidity Select Account with NatWest in October 2010. This account is used like the BoS account to deposit surplus funds when required and gives the Authority an alternative depending on the prevailing interest rate.

### **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. A draft report has been produced with findings and conclusions to be discussed with management prior to inclusion in the final report.

This year's testing encompassed the Key Controls and an examination of the system. Policy Statement, investments loans, authorities, cash flow, interest calculation, bank transfers, registers and control accounts were examined

### **Recommendations**

High/Significant risk recommendations – none

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

### **Governance Statement assessment**

**There are no major control weaknesses within the treasury management function.**

Type: System

**SUBJECT: Debtors**

Date: March 2011

**Introduction**

The Authority uses the *Agresso* FMS billing module to raise invoices and administer the Debtors function, which in 2009/10 raised over 8800 invoices and credit notes related to council services. The value of all invoices was £4.1M with credit notes valued just over £300K giving a net total of £3.8M in collectable income.

As a comparison by mid-January 2011 the system had produced just over 8200 invoices and credit notes with a net collectable value of almost £4M.

**Scope and Coverage**

The audit review was undertaken covering the key controls 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 are discussed with Management prior to being included in a formal report or memorandum.

The testing covered transactions in 2009/10 and 2010/11 and encompassed the expected key controls, together with general observations and examination of the system. Functions examined included invoice requests, billing, payment, recovery, write-offs, costing and outstanding debt.

**Recommendations**

High/Significant risk recommendations - none

A number of recommendations were made, all of which were of low or medium risk. These have been agreed and Management is implementing them.

**Governance Statement assessment**

**The Debtors system operates with a good degree of internal control, this being confirmed as no major control weaknesses have been found during the course of this audit. The level of outstanding debt has reduced at the year-end identifying that the Corporate Recovery unit is now making inroads into the older debts.**

Type: System    **SUBJECT: Bank Reconciliation**    Date: June 2011

### **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 Cashbook to ledger reconciliation and the March 2011 main reconciliation summary in terms of completion and authorisation.

### **Recommendations**

At this stage of the audit there are no recommendations

### **Governance Statement Assessment**

**The 2010/11 monthly bank reconciliations have been undertaken in a timely manner and indeed this is now a requirement of the Corporate Services Partnering Contract. This is an interim report to confirm the completeness of the ledger.**

AUDIT CATEGORY - 2010/11	Audit Team	Specialists	%	Qtr 1	Qtr2	Qtr3	Qtr4	Total
Total available days less leave etc	620	20	640					
PLANNED AUDITS/ AUDIT WORK	325		325	44	52	79	75	250
CONTINUOUS AUDIT	4		4	3	0	0	1	4
SPECIALIST AREAS:								
a. Computer	50	20	70	7	6	9	1	23
b. Contract	44		44	9	10	7	2	28
MANAGEMENT	60		60	8	12	10	11	41
OTHER:	40		40	6	5	1	0	12
TRAINING, FURTHER EDUCATION	40		40	6	6	7	15	34
ROUTINE DUTIES	57		57	17	24	29	22	92
TOTAL	620	20	640	100	115	142	127	484
				16.13%	18.55%	22.90%	20.48%	78.06%
				Checksum			78.06%	484

Audit Reports	Type	Risk Rating	Risk Rating post Audit work	Recommendations			Time taken in days		Review date	Notes	
				High	Medium	Low	Plan	Actual			
Council Tax	System	Low	No Change				0	10	14	Apr-11	
N.I.D.R.	System	Low	No Change	1			1	10	16	May-11	
Etwell Leisure Centre - Ph1	Establishment	High	Low	3	10		13	16	18	Dec-11	
Main Accounting	System	Low	No Change				0	12	13	Aug-11	
Bank Reconciliation	System	Low	No Change		1		1	5	6	Aug-11	
Car Allowances	Routine	Low	No Change		4		4	4	4	Mar-11	
Etwell Leisure Centre - Ph2	Contract	N/A			3		3	8	8	Apr-11	
Capital Programme Monitoring	System	Medium			3		3	0	8	Feb-11	
Budgetary Control	System	Low	Low				0	8	9	Dec-11	
Licenseing	System	not rated	Low		5		5	8	9	Jun-11	
Improvement Grants	Routine	Low	Low		3		3	10	10	May-11	
Partnership	Governance	N/A			3		3	8	8	Jul-11	
Sundry Debtors	System	Low	Low		2		2	7	8	Dec-11	
Creditors	System	Low	Low		1		1	8	8	Dec-11	
Housing Repairs	System	Low	Low		4		4	10	10	Feb-12	
Etwell Leisure Centre	Follow-up	Low	Low				0	0	1	N/A	Memo CCTV, Security, Cash Collection
Data Protection/FOI	System	Low	Medium		3		3	8	8	Sep-11	
Treasury Management	System	Low	Low		3		3	6	9	Mar-12	
Corporate Services Partnering Project	Contract	not rated	Low		1		1	20	20	Nov-11	
Growth Point Partnership	Grant/system	Low	Low				0	10	10	Mar-12	
Payroll Transfer to Northgate system	System	Low	Low		1		1	5	5	Oct-11	Interim Report being drafted

Performance Information

Quarter 4 (April - March 2011)

APPENDIX 2

Performance Area	Measure	Previous Year actual	Target 2010/11	Profile Target 4th Qtr	Actual to Qtr 4	On Target	Remarks
Productivity (see below)	Completion of Audit Plan (percentage)	90.78%	90.00%	90.00%	78.06%	No	Our Senior Auditor retired in April leading to a reduction in resources in the short term. Derby City Internal Audit Service have completed a number of audits in this quarter.
	Operational Audit Time (days)	n/a	571	571	400		
	Non Productive time (days)	n/a	49	49	84		
	Draft audit reports issued within 10 working days of completion of audit fieldwork (percentage)	n/a	70.00%		40.00%	No	Although this indicator has been in use for a number of years, it has been hardened this year.
	Final audit reports issued within 20 working days of completion of audit fieldwork (percentage)	n/a	70.00%		40.00%	No	As above. In both cases we are looking to improve on these as the year progresses.
Financial	Total cost of Unit for the Year (£)	£176,953	£178,100		£131,812		
	Cost per Audit Day (£)	£285	£287		£272		
Staff	Sickness Absence (percentage)		n/a		0.00%		
	Staff Turnover (percentage)		n/a		0.00%		
	Training Days	6.00%	6.00%		5.30%		Percentage of audit plan allocated to Training and Seminars
Quality	Client satisfaction score (percentage)	n/a	80.00%		n/a		
	Recommendations agreed for implementation (percentage)	100.00%	100.00%		100.00%	Yes	
	Recommendations actually implemented (percentage)	100.00%	100.00%		100.00%	Yes	
	Number of Customer Complaints	0	0		0		
Operational Audit Time	Total days available Less Public Holidays, Leave	620	620	620	484		
	Less non-operational days (as below)	n/a	-49	-49	-84		
		<b>620</b>	<b>571</b>	<b>571</b>	<b>400</b>		
Non Productive Time	Sickness	n/a	0		0		
	Union Duties	n/a	18	18	53		
	Non-audit Duties	n/a	27	27	30		
	Other	n/a	4	4	1		
	<b>Total - Non-operational Audit Days</b>		<b>n/a</b>	<b>49</b>	<b>49</b>	<b>84</b>	