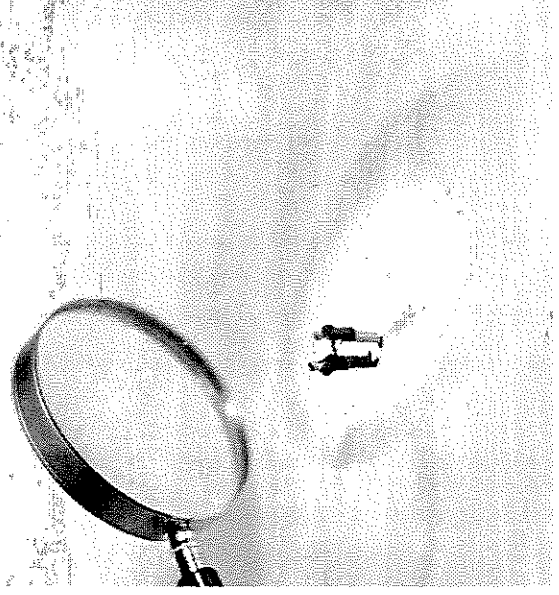


central midlands audit partnership

South Derbyshire District Council – Internal Audit Progress Report

Audit Sub-Committee: 22nd February 2012



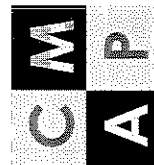
Our Vision

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

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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.

South Derbyshire District Council – Internal Audit Progress Report

2 Audit Coverage

Progress on Audit Assignments

Between 1st April 2011 and 31st January 2012, Internal Audit (CMAP or Derby City Council) has spent a total of 99 days on audit reviews within South Derbyshire District Council. The time spent can be broken down as follows:

Audit Assignment	Current Status	Days Spent
Housing Benefits	In Progress	0.25
Payroll	In Progress	6.50
Financial Systems	In Progress	2.50
HR Policies & Pre-employment Checks	Reviewed	9.75
Rent Accounting (already reported to Committee)	Final Report	15.25
Planning Services	In Progress	2.50
Rosliston Forestry Centre	Reviewed	15.75
Legal & Democratic Services	Final Report	12.50
Data Quality (already reported to Committee)	Final Report	6.00
Academy IT Security	In Progress	5.50
FOI & Data Protection (already reported to Committee)	Final Report	0.75
Corporate Services Contract (already reported to Committee)	Final Report	7.75
Investigation - Grounds Maintenance Orders	Final Report	7.25
Advice / Emerging Issues	Ongoing	6.75
Total	Days	99.00

During this same period, other time has been spent by South Derbyshire's former Internal Audit service, but we are currently unable to establish the time spent on that work. We are able to establish that the following audit assignments have been completed by the former Internal Audit Service and have already been reported to this committee: Council Tax; NINDR; Budgetary Control; Main Accounting System; Bank Reconciliations and Green Bank Leisure Centre – Procurement.

The investigation into Grounds Maintenance Orders has been completed since the last

Committee meeting and is subject to a separate report on the Agenda. The audit report on Legal & Democratic Services has also been finalised since the last Committee meeting. Accordingly, a summary of that report follows:

Legal & Democratic Services Audit

Overall Control Assurance Rating: **Comprehensive**

An audit was undertaken to review the adequacy of the systems and processes in place for the payment of Election fees, the processing of applications for Land Charges and the payment of Members Allowances.

From the 27 key controls evaluated in this audit review, 20 were considered to provide adequate control and only 7 contained weaknesses. The report contained 5 recommendations which were all considered a low risk. The following issues were considered to be the key control weaknesses:

- No checks were undertaken by the Elections Office to ensure payments made to staff who had undertaken election duties were all present and correct.
- Purchase orders were not being raised for goods and services required in respect of running the election.
- Five items of election expenditure exceeded £2,500, yet quotes had not been sought or obtained in accordance with the Council's Financial Procedure Rules. One of which also exceeded the £10,000 limit which requires a formal supply agreement.
- 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.
- Independent checks were not being undertaken to ensure all income received in respect of Land Charges applications was banked correctly, promptly and in full.

All 5 of the control issues raised within this report were accepted. Positive action was being taken to address 3 of the recommendations by April 2012, whilst the Council has chosen not to implement the 2 recommendations to address the control issues with regard to Elections.

2 Audit Coverage (Cont.)

Future Work Plan

In the coming weeks, we are scheduled to issue the draft audit reports on HR Policies & Pre-employment Checks and Rosliston Forestry Centre.

Before the end of the Audit Plan year we also intend to complete the audit assignments on:

- Payroll.
- Housing & Council Tax Benefits.
- Financial Systems (i.e. Creditors and Debtors).
- Planning Services (incl. Building Control Fees, Planning Fees and Section 106 Agreements).
- Academy IT Security.

To ensure that all the organisation's key financial systems have been given audit coverage during the year, we also plan to commence an audit assignment on Accounting Systems (i.e. Main Accounting System and Treasury Management).

We are 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.

South Derbyshire District Council – Internal Audit Progress Report

3 Audit Performance

Customer Satisfaction

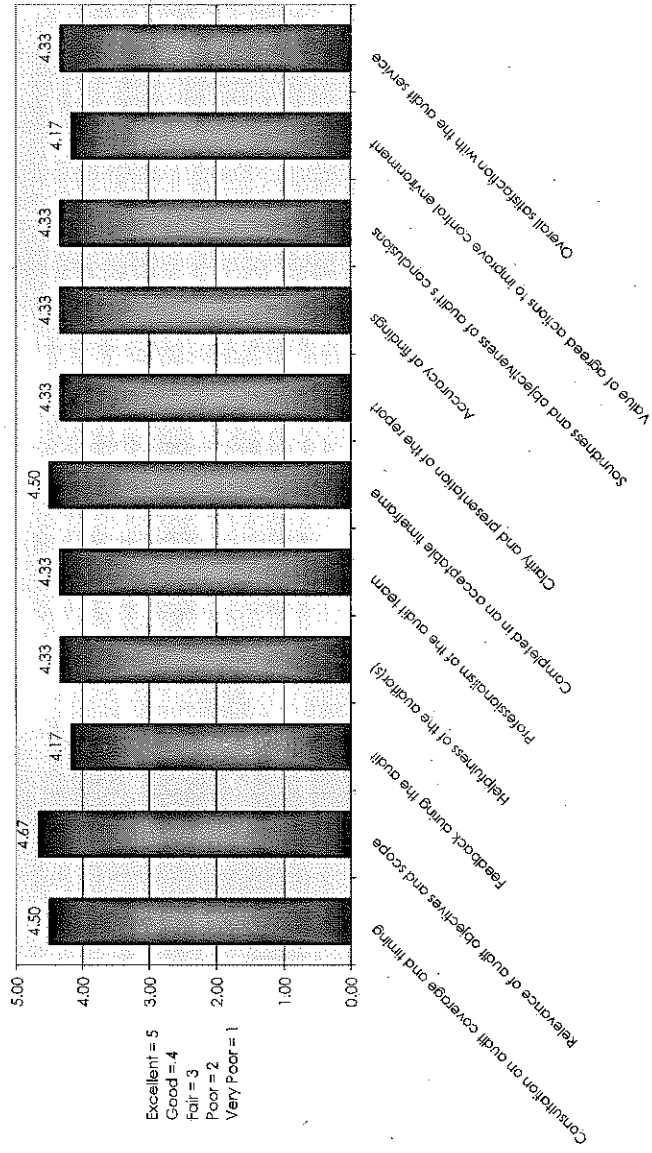
The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. Appendix A summarises the average score for each category from the 6 responses received. The average score from the surveys was 48 out of 55. The lowest score received from a survey was 44, 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 4 of 6 responses categorised the audit service they received as excellent, another 2 response categorised the audit as good. There were no responses that fell into the fair, poor or very poor categories.

Customer Satisfaction Survey Results 2011-12



4 Recommendation Tracking

Follow-up Process

In future, Internal Audit will send emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We will request an update on each recommendation's implementation status, which will be 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:

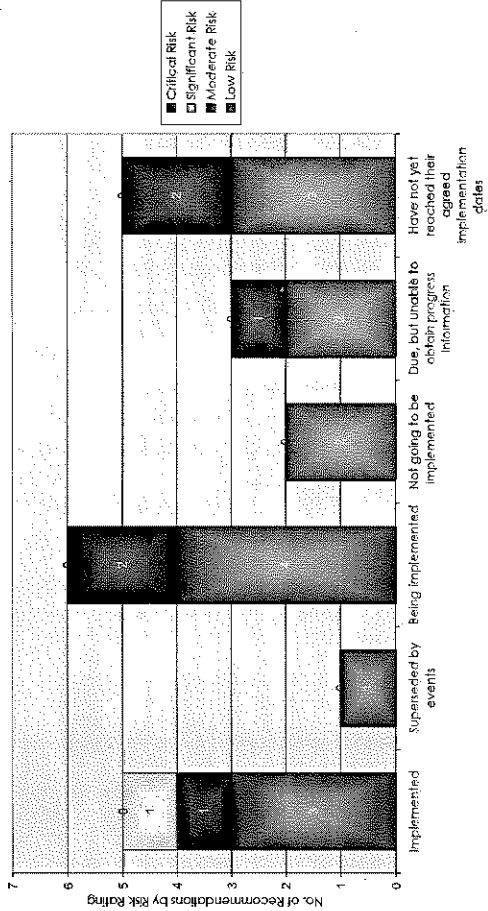
- **Blank** = Audit have been unable to ascertain any progress information from the responsible officer.
- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **Superseded** = Audit has received information about changes to the system or processes that means 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.

Future Reports

Future reports to Committee are 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 will produce a summary report that resembles the example below;

Example of Recommendation Tracking Summary 2011-12



We will need to agree with Committee whether members would be interested in receiving any further details, or taking specific actions, in relation to some of the recommendation status categories shown above.

