
REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 12.
DATE OF MEETING:	23 rd June 2011	CATEGORY: RECOMMENDED
REPORT FROM:	HEAD OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	TONY STAMPER (595706)	DOC:
SUBJECT:	Summary of Internal Audit reports 2010/11 (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 are 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. Growth Point Partnership – Derby City are the accountable body for the distribution of growth point funds to projects within South Derbyshire. Internal Audit have undertaken an audit on the majority of capital projects and examined all the expenditure and in doing so confirmed that it meets the conditions. A file of evidence has been prepared to support the grant claimed for 2009/10 and passed to the HMA Coordinator at Derby City for audit purposes. A number of issues have been highlighted but essentially these are related to the funding of capital schemes within the accounting records of the Authority and these have been addressed.
- b. Payroll System Transfer – The payroll system that has been used for a number of years is Frontier's Chris 21 system. Northgate Public Services, who now manage our corporate services, introduced their own system "Resource-Link" from the beginning of March 2011 to manage our four payrolls namely salaries, wages, Members allowances and elections. This system is located off site and acts as a bureau, data either being delivered via the postal system or transferred via a secure server connection. All transferred staff have been paid on this system since last year.

The transfer of employee details and summary totals for retained staff has been undertaken on a parallel changeover basis with both systems operating together until the end of February 2011. Resource Link became the prime system during March 2011 and a dual process operated with the Chris system during this month. All the control data and summaries have been examined and verified, minor differences exist primarily because each system has a different way of rounding up the control totals. Work is continuing in looking at administrator permissions, input documentation and security. The records established to evidence the integrity of the system transfer have been produced to a very high standard.

- c. Corporate Services Partnering Contract – The intention of this audit is to provide assurance that the system for the monitoring of the Corporate Services Contract and ongoing contract payments is providing an acceptable level of control. Contract monitoring, quality control, contract amendment and variation procedures, follow-up procedures for performance, post project review and governance arrangements have all been examined. One issue was raised regarding the need for a procedure to deal with issuing default notices and applying penalties. This has been addressed and the level of control is adjudged as high.
- d. Main Accounting – A system audit has commenced as part of the section 151 work for 2010/11. The audit examines brought forward balances, cash postings, reconciliations, user access and feeder system controls. This is the last audit that will be undertaken on the *Agresso* version 5.4 ledger system and although this is not yet completed there are no weaknesses located so far.
- e. NNDR – the management control information has been verified as part of the year-end work on the Academy system. A section 151 audit is in progress on the NNDR function and nearing completion. This has examined

valuation, calculation, billing, collection rate monitoring, amendments, reliefs, discounts, refunds, cash postings, ledger posting and reconciliations.

- f. Bank Reconciliation – The audit is at interim stage having examined the cashbook to ledger reconciliation and the March 2011 main bank reconciliation summary in terms of completion and authorisation. The payments account reconciliation used for cheque matching and the main bank reconciliation have been consolidated. This is to be examined along with the amounts held in reconciliation for more than three months. There are some minor issues relating to outstanding cheques but overall the bank reconciliation process is operating well and is up to date.
- g. Value Added Tax – Audit work was undertaken on the VAT function. This involved a walk through of the system and the testing of a monthly claim in particular agreeing the content of the claim to the ledger. In addition testing was undertaken on the VAT classification and calculations on the creditor's invoices, direct debits and Chaps payments within the creditor samples. There were no issues found and the standard of completion of the claim and associated working papers was high.

A computer audit review of the Academy Revenue and Benefits system has commenced and a Data Quality audit is in progress.

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 Derby City Council Internal Audit Service has undertaken audits during this period as part of the arrangement to supply additional resources.
- 4.8 The Internal Audit Service has completed 78.06% of the planned audit days up to the end of March 2011 against the planned target of 90%. The percentage completion for this period is lower than planned as a result of the reduction in resources, although the work undertaken by Derby City Council has alleviated the situation. However there is some slippage of audits into 2011/12 and the unspecified allocations for VFM/Risk related work will not be used.
- 4.9 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