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Our ref: DT/CL

Your ref:

Date: 11th February 2014

Dear Councillor,

Audit-Sub Committee

A Meeting of the **Audit-Sub Committee** will be held in the **Council Chamber**, on **Wednesday, 19 February 2014 at 16:00**. You are requested to attend.

Yours faithfully,

Chief Executive

To:- **Conservative Group**
Councillor Harrison (Chairman), Councillor Ford (Vice-Chairman) and
Councillor Mrs. Hood.

Labour Group
Councillors Dunn and Shepherd.



AGENDA

Open to Public and Press

- 1 Apologies
- 2 To receive the Open Minutes of the Meetings held on 25th Sept and 18th Dec 2013 (attached).
Minutes 25.9.13 3 - 5

Minutes 18.12.13 6 - 7
- 3 To note any declarations of interest arising from any items on the Agenda
- 4 To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 5 To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 6 Certification Work 2012-13 8 - 24
- 7 Internal Audit - Quarterly Progress Report 25 - 42

Exclusion of the Public and Press:

- 8 The Chairman may therefore move:-
That in accordance with Section 100 (A) of the Local Government Act 1972 the press and public be excluded from the remainder of the Meeting as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that there would be disclosed exempt information as defined in the paragraph of Part I of the Schedule 12A of the Act indicated in the header to each report on the Agenda.
- 9 To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.
Details

AUDIT SUB-COMMITTEE

25th September 2013

PRESENT:-

Conservative Group

Councillor Harrison (Chairman), Councillor Ford (Vice-Chairman) and Hood.

Labour Group

Councillors Dunn and Shepherd.

AS/8. **MINUTES**

The Open Minutes of the Meeting held on 19th June 2013 were submitted. The Minutes were approved as a true record and signed by the Chairman.

MATTERS DELEGATED TO SUB-COMMITTEE

AS/9. **ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE**

Grant Thornton, the Council's appointed auditors presented their statutory Annual Report on the Council's accounts and financial statements for 2012/13. The Sub-Committee was requested to consider the report and its recommendations, together with the proposed management responses. Tony Parks of Grant Thornton took Members through the circulated document. It provided details on the Audit of the Council's annual accounts, financial statements and financial systems for 2012/13. Consequently it provided an opinion on the accounts. It was noted that this report would also be presented to the Finance and Management Committee for formal adoption and publication.

In addition, the report assessed overall value for money arrangements at the Council and provided the Auditor's opinion on whether value for money was provided. Finally, at the end of the Audit, the Council was required to provide a letter of representation. This required the Council's Chief Finance (Section 151) Officer to provide assurances about the status of the accounts and financial statements. Essentially, it confirmed that there were no material issues or transactions known, other than those already reported and disclosed that could materially affect the accounts for 2012/13.

As a result of the assessment, it was confirmed that the auditors would be able to issue an unqualified opinion on the accounts. There were no matters arising and no significant control issues were identified.

The Auditor praised the work of the Head of Service and his staff and thanked the officers for their co-operation.

The Committee welcomed the report and:

RESOLVED:-

- (1) That the report be approved; and***
- (2) That having considered the report, the Sub-Committee is satisfied that there are no specific matters that prevent the formal adoption of the Financial Statements.***

AS/10. **INTERNAL AUDIT – QUARTERLY PROGRESS REPORT**

A progress report was provided detailing performance and activity of Internal Audit between 1st June and 31st August 2013. Adrian Manifold of the Central Midlands Audit Partnership took Members through the circulated document. This comprised a summary, details of the audit coverage, audit performance and recommendation tracking. The Officer highlighted particular sections of the report and responded to Members' questions. He identified a number of low risk issues but confirmed that there were no serious matters of concern.

It was stated that the audit performance was on target for the year.

Finally, Members discussed recommendation tracking, and noted a new recommendation regarding Council Tax.

RESOLVED:-

That the report of the Audit Manager is received with thanks.

AS/11. **PUBLICSECTOR INTERNAL AUDIT STANDARDS-COMPLIANCE**

A report was submitted by Richard Boneham of the Central Midlands Audit Partnership to provide the Sub-Committee with a self-assessment of conformance with the new Public Sector Internal Audit Standards which came into effect on 1st April 2013.

The report outlined the man changes to the regime and contained a detailed appendix setting out how the new system works.

Members commented that they found the new system to be very comprehensive and:

RESOLVED:-

That the report be noted.

J. HARRISON

CHAIRMAN

The Meeting terminated at 4.20 p.m.

AUDIT SUB-COMMITTEE

18th December 2013

PRESENT:-

Conservative Group

Councillor Harrison (Chairman), Councillor Mrs. Hood.

Labour Group

Councillor Dunn

AS/12. **APOLOGIES**

Apologies for absence from the Meeting were received from Councillors Ford (Vice-Chairman) (Conservative Group) and Shepherd (Labour Group)

MATTERS DELEGATED TO SUB-COMMITTEE

AS/13. **INTERNAL AUDIT – QUARTERLY PROGRESS REPORT**

A progress report was provided detailing the performance and activity of Internal Audit between between 1st September 2013 and 30th November 2013.

Members expressed concern that some items on the progress report appeared to be behind target. Adrian Manifold confirmed that all actions were expected to be completed.

The Officer responded to further questions from Members and gave an explanation on the new system of ranking risks from low to critical.

Members queried why the Leisure Management Contract had not yet been completed. The Director of Finance and Corporate Services responded that there were a few issues still to be resolved, therefore the finalisation of the contract had been postponed until the 31st January 2014. It was requested that a report be sent back to Audit Sub Committee if the contract had not been completed by this date.

RESOLVED:-

That the report of the Audit Manager be received.

AS/14. **PUBLIC SECTOR INTERNAL AUDIT STANDARDS – PROPOSED AUDIT CHARTER**

A report was submitted by The Central Midlands Audit Partnership on the proposed Audit Charter.

In accordance with the Public Sector Audit Partnership, which came into force on 1st April 2013, the report set out the proposed charter. It was noted that the report was presented to the Partnership Board earlier in December.

Members asked questions on the whistle blowing policy and further information was provided.

RESOLVED:-

That the report be noted.

AS/15. **PUBLIC SECTOR INTERNAL AUDIT STANDARDS - QUALITY ASSURANCE & IMPROVEMENT PROGRAMME**

A report was submitted by The Central Midlands Audit Partnership to provide the Sub-Committee with information on a new Quality Assurance and Improvement Programme for internal audit in accordance with the Public Sector Audit Standards that came into force on 1st April 2013.

The report outlined the main changes to the regime and contained information that set out how the new system worked.

RESOLVED:-

That the report be noted.

AS/16. **LOCAL CODE OF CORPORATE GOVERNANCE – REVIEW OF WORK PLAN 2013/14**

A report was submitted by the Monitoring Officer to give Members a 6 monthly update on progress associated with updating and strengthening the Councils Corporate Governance arrangements.

Members discussed the on-going review of Member training and development.

RESOLVED:-

That the report be noted.

J. HARRISON

CHAIRMAN

The Meeting terminated at 5.05 p.m.

REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	19th FEBRUARY 2014	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/Grant Thornton/grants/covering report
SUBJECT:	CERTIFICATION WORK 2012/13	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 01

1.0 Recommendation

1.1 That the report is considered and that the proposed actions for 2013/14 are approved.

2.0 Purpose of Report

2.1 For the Committee to review the work of the Council's External Auditor for 2012/13 in relation to the certification of grants. In particular, to consider the recommendations and management responses as detailed in the Action Plan in **Appendix B** of Grant Thornton's report.

3.0 Detail

3.1 The report of Grant Thornton as the Council's appointed Auditor is attached to this covering paper. The Auditor will be attendance at the meeting to present the report and answer any issues and questions from the Committee.

4.0 Financial Implications

4.1 The recommended actions arising out of the findings will be contained within current resources.

5.0 Corporate Implications

5.1 None

6.0 Community Implications

6.1 None

7.0 Background Papers

7.1 None



Certification report 2012/13 for South Derbyshire District Council

Year ended 31 March 2013

11 February 2014

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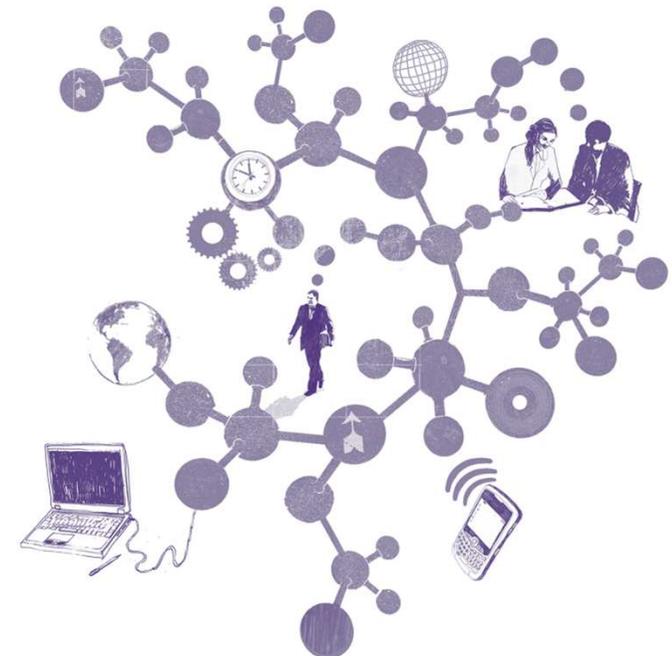
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Section 1: Executive summary

01. Executive summary

02. Results of our certification work

Executive summary

Introduction

We are required to certify certain of the claims and returns submitted by South Derbyshire District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified three claims and returns for the financial year 2012/13 relating to expenditure of £46.1 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	All claims were submitted on time to audit and all claims were certified within the required deadline.	● green
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	Certification of the Housing and Council Tax Benefit Scheme found errors which are broadly consistent with those noted in 2011/12. These errors led to 11 areas where additional testing was required to be completed by the Council. In two areas the Council did not complete the work in a timely manner so that a review could be undertaken by audit. This is highlighted in the qualification letter issued to the Department of Work and Pensions (DWP).	● red
Supporting working papers	Supporting working papers for claims and returns were of good quality.	● green

The way forward

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B.

Certification of the Housing Benefit and Council Tax Subsidy Scheme found that additional testing was required in 11 areas due to the errors identified. Two of these areas were not completed in a timely manner to enable auditor re-performance. This was reported in the qualification letter to the DWP. The Council should work with the audit team to put a timetable in place to complete additional testing so that similar issues are not encountered in future years.

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
February 2014

Section 2: Results of our certification work

01. Executive summary

02. Results of our certification work

Results of our certification work

Key messages

We have certified three claims and returns for the financial year 2012/13 relating to expenditure of £46.1 million.

The Council's performance in preparing claims and returns is summarised below:

Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	3	100	4	100	↔
Claims certified on time	100%	3	100	4	100	↔
Claims certified with amendment	0%	0	0	1	25	↑
Claims certified with qualification	0%	1	33	1	25	↔

This analysis of performance shows that:

- all grants were submitted and certified on time as per the prior year
- there were no claims certified with amendment which is an improvement from the prior year
- the only claim qualified continues to be the housing benefit and council tax subsidy claim.

Details of the certification of all claims and returns are included at Appendix A.

Significant findings

Our work has identified the following issues in relation to the management arrangements and certification of individual grant claims and returns:

- The compilation procedures for each of the grant claims was good. Each of the claims are prepared by experienced officers who are familiar with the grant requirements.
- Supporting working papers for all claims and returns were good and provided in a timely manner. This enabled certification within the deadlines.
- For the housing benefit and council tax grant claim, 11 areas of additional testing were required. The Council were unable to complete the additional testing on two areas in a timely manner, which has been reported in the qualification letter issued to the DWP.

Recommendations for improvement are included in the action plan at Appendix B

Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £31,400. Further work is required on two areas of the housing benefit and council tax claim. When this work is completed we will report the actual fee which is subject to confirmation by the Audit Commission.⁷

Appendices

Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing & Council Tax Benefit scheme	£22,959,653	No	n/a	Yes	Various errors identified in entitlement calculations and expenditure classification which is consistent with 2011/12 findings. Errors identified in all expenditure types which resulted in qualification of the claim
National Non Domestic Rates	£22,229,536	No	n/a	No	
Pooling of Housing Capital Receipts	£956,360	No	n/a	No	
Total	£46,145,549				

Appendix B: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>BEN01: Housing and Council Tax Benefits Scheme</p> <p>A number of benefit cases across all tenure types were identified as having been processed with incorrect earnings figures, inaccurate income assessments and insufficient audit evidence.</p> <p>A number of benefit cases across all tenure types were incorrectly classified</p> <p>Recommendation</p> <p>The Council should ensure that appropriate quality control arrangements are in place so that all case details are accurately recorded and to minimise the misclassification of benefit expenditure for subsidy purposes.</p>	High	<p>Background</p> <p>For historical reasons, the Council is encumbered with a high baseline of review testing. This follows the combined impact of the first year of Grant Thornton as external auditors, an assessment processing environment of two systems (Realink and Academy) during that year, with limited expertise available to support testing. In addition, the introduction of the 'life of claim' methodology compared to single cell transaction testing under the Audit Commission has also increased reviews.</p> <p>This combination of circumstances has led to an extensive regime of review testing. The nature of such is that even a small error as low as 1p in any claim processed within the year leads to a 40 case sampling the next. Although auditor sample testing has seen a decrease in errors identified in 2012/13, compared with the previous year, the extensive scope and volume casework review testing has an adverse impact on reportable errors.</p> <p>2012/13</p> <p>The Auditors comment on results being similar to 2011/12 and whilst that is accepted, the emerging results from that audit in November/December 2012 led to a redefinition of the quality assurances that were in place prior to that audit to improve on performance.</p> <p>However, given that two thirds of the year had already passed the impact of the changes will not be fully visible until the 2013/14 subsidy audit. For example LA error to date (prior to audit) is at 50% for the comparative position in 2012/13.</p> <p>Similarly, the annual internal audit report on benefits processing carried out in December 2013, found no processing errors and gave a comprehensive endorsement of the processing arrangements now in place, clearly suggesting that the revised quality assurance (QA) process is having the desired effect of sustained improvement.</p> <p>Although quality assurance processes are already in place and have been for some time, it is accepted, that despite these improvements, further action is possible.</p>	

Appendix B: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
		High	<p>Further Action</p> <p>Within the auditor’s qualification letter and attachment, there are a number of specific issues that are capable of being addressed by further testing and revision of validation processes. Our approach will be discussed with the auditor and specifically, but not exclusively, relate to the following areas:</p> <ul style="list-style-type: none"> • Back dating • Extended payments where validation by a second assessor or manager is proposed before being put into payment. • Rent Officer decisions and LHA rents where in year review of these areas has already commenced to identify the root causes whether it be individual processors, processes or a training issue <p>Action plan</p> <ul style="list-style-type: none"> • Revise and put into place authorisation processes for backdating, extended payments and home payments • Introduce enhanced in year review of prior year audit findings, in addition to routine quality assurance, during the period December to March to identify remedial action required. During this period claims will be amended as required within the year. <p>(Note this has already commenced in respect of the 12/13 audit results with the client unit retrospectively reviewing initially the rent allowance cells and Northgate specifically targeting their 10% sampling towards these areas for the remainder of the year).</p> <p style="text-align: center;">Page 19 of 42</p>	<p>(Revenues and Benefits Manager - by 31st March 2014)</p> <p>(Client Manager – retrospective analysis completed by 31st March 2014; Revenues and Benefits Manager – targeted 10% sampling completed by 31st March 2014)</p>

Appendix B: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
2	<p>BEN01: Housing and Council Tax Benefits Scheme</p> <p>The Council did not complete two out of the 11 areas for additional testing required in a timely manner to enable auditor re-performance by the deadline.</p> <p>Recommendation</p> <p>The Council should work with the audit team to develop a rigid timetable for the completion of any extended testing, so that all issues are resolved before the deadline.</p>	High	<p>Whilst it is accepted that the 2012/13 audit completion was delayed, this was considered to be mainly due to the delayed start by the Auditors when compared to previous years.</p> <p>The Council has limited resources available to it for this work. The cost of buying in additional resources with the necessary skills set is prohibitive in terms of cost. In view of this, both the Council and Northgate expressed concerns at the initial planning meeting for the 2012/13 audit that the proposed timetable was effectively one month later than in previous years and that it would be difficult to complete within the timescale suggested.</p> <p>Work commenced around the last week in August 2013 rather than the first week as normal. The Council considers that given the high level of review testing that there is no reason why this could not start almost immediately after the final claim is submitted, following the selection of the sample by the auditors.</p> <p>Part of the problem this year was the extensive testing required in the two cells where the focus was on income assessment. Inevitably the number of changes in circumstance meant that some individual claims were taking up to a day to review. This adversely affected the estimated timescale for completion. This will be reflected in future planning as regard resource planning and the cells requiring priority completion in relation to others.</p> <p>Action plan</p> <ul style="list-style-type: none"> • Commence review testing earlier • Agree detailed testing broken down by cell type and testing required; analyse details of individual claim changes in detail and agree periodic review dates and minute action points. 	(Client Services Manager – 15th May 2014)

Appendix B: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility										
3	<p>BEN01: Housing and Council Tax Benefits Scheme</p> <p>There are some discrepancies between the system parameters used by the Council for entitlement calculation and amounts prescribed by the DWP. This was included in the qualification letter to DWP</p> <p>Recommendation</p> <p>The Council should ensure that parameters are reviewed and adjusted to be in line with DWP requirements.</p>	High	<p>Upating Circular (A1/2012) issued by the DWP sets out the following in relation to the approach taken by Local Authorities to upating.</p> <p><i>We are aware that many local authorities' (LA) IT systems apply a percentage increase to uprate income from other social security benefits in the assessment of HB/CTB. In previous years, we have advised that as this method should, in most cases, produce accurate results, providing the LA has satisfied itself as to the accuracy of its method, it should be able to meet its duty to make proper determinations.</i></p> <p><i>However, given the fact that in recent years some of the components paid in addition to the main rate of some benefits and the main rates themselves have been uprated by different indices, LAs should consider carefully whether applying standard percentages will result in correct determinations.</i></p> <p><i>LAs should also take into account that, from December 2012, specific Automatic Transfer to LA Systems (ATLAS) uprating notifications will be issued for all benefits on the Customer Information System (CIS), except Attendance Allowance (AA), Disability Living Allowance (DLA) and Carers Allowance (CA). Should an LA decide to apply a percentage increase to uprate income, as a minimum any information subsequently received via ATLAS should be compared with existing LA system data to ensure it matches.</i></p> <p>Qualification for 2012/13 year relates to</p> <table border="1"> <thead> <tr> <th>Parameter</th> <th>Value from Module 2</th> <th>Value from the Academy system</th> <th>Difference</th> <th>Claims affected</th> </tr> </thead> <tbody> <tr> <td>Severe disablement allowance - basic rate</td> <td>£69.00</td> <td>£79.02</td> <td>£10.02</td> <td>24</td> </tr> </tbody> </table>	Parameter	Value from Module 2	Value from the Academy system	Difference	Claims affected	Severe disablement allowance - basic rate	£69.00	£79.02	£10.02	24	
Parameter	Value from Module 2	Value from the Academy system	Difference	Claims affected										
Severe disablement allowance - basic rate	£69.00	£79.02	£10.02	24										

Appendix B: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

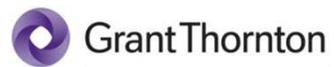
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
		High	<p>This means that the Council is potentially underpaying claimants, rather than overpaying and as such is protecting its interest as regards subsidy. Within the above DWP Circular, there is no measure of cases paid where there are age related additions paid in addition to the basic rate.</p> <p>Since ATLAS was introduced the Council has checked on a daily basis, as the minimum suggested by the DWP, that values shown on CIS agree to the LA system, Academy. Furthermore it is the claimant's responsibility to also notify any changes and/or differences between the actual income and that used by the Council and set out in notifications of award to the individual.</p> <p>The Council did not carry out a reassessment of cases as it was satisfied that its processes met the requirements set out in the DWP circular. This approach is not dissimilar to that carried out by other authorities and is therefore not unusual. However, given that the matter has now been raised in the Certification report, in addition to the HB qualification letter, further work has been carried out to validate the Council's opinion.</p> <p>Eleven of the cases concerned were passport claims throughout the year and as such the parameter is irrelevant as the overriding criteria that an award of 100% is made (subject to any other statutory deduction). Of the remainder, 10 cases are paid at £69.00 plus either £5.90 or £11.70 as an age related addition; one case was IS but following ATLAS notification was invited to make a standard claim but failed to do so and therefore ended in November 2012. The balance of cases was dormant at 1st April 2012, although they showed on the report produced for the auditors.</p> <p>Although factually there is a difference between the amounts notified in the Uprating Circular A1/2012 to the parameter, in reality, the Council can account for the accuracy of the 24 claims identified, for the above reasons: Therefore, it is considered that the requirements set out in Paragraph 2 in the DWP Circular are satisfied.</p>	

Appendix C: Fees

Claim or return	2011/12 fee (£)	2012/13 indicative fee (£)	2012/13 actual fee (£)	Variance (£)	Explanation for significant variances
Housing and council tax benefit scheme	56,515	27,770	*		
National non-domestic rates return	3,885	2690	947	(1,743)	Reduced testing required in 2012/13 under the Audit Commission cyclical approach.
Pooling of Housing Capital Receipts	1,915	940	630	(310)	Reduced testing required in 2012/13 under the Audit Commission cyclical approach.
Total	62,285	31,400			

* the certification work for the Housing and Council Tax Benefit Scheme is not yet complete. When this work is completed we will report the actual fee which is subject to confirmation by the Audit Commission.



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REPORT TO:	AUDIT SUB COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	19h FEBRUARY 2014	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/internal audit/quarterly reports/cover
SUBJECT:	INTERNAL AUDIT - QUARTERLY PROGRESS REPORT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: AS 02

1.0 Recommendations

1.1 That the report of the Audit Manager is considered and any issues identified are referred to the Finance and Management Committee or subject to a follow-up report as appropriate.

2.0 Purpose of Report

2.1 To provide an update on progress against the approved Internal Audit Plan. This details the performance and activity of Internal Audit between 1st December 2013 and 31st January 2014.

3.0 Detail

3.1 The detailed report is attached.

4.0 Financial Implications

4.1 None directly.

5.0 Corporate Implications

5.1 None directly.

6.0 Community Implications

6.1 None directly.

7.0 Background Papers

7.1 None

South Derbyshire District Council – Internal Audit Progress Report

Audit Sub-Committee: 19th February 2014



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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South Derbyshire District Council – Internal Audit Progress Report

Summary

Role of Internal Audit

The Internal Audit Service for South Derbyshire District Council is 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 Public Sector Internal Audit Standards – PSIAS). CMAP also adheres to the Internal Audit Charter.

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

Audit Coverage

Progress on Audit Assignments

The following table provide Audit Sub-Committee with information on how audit assignments were progressing as at 31st January 2014.

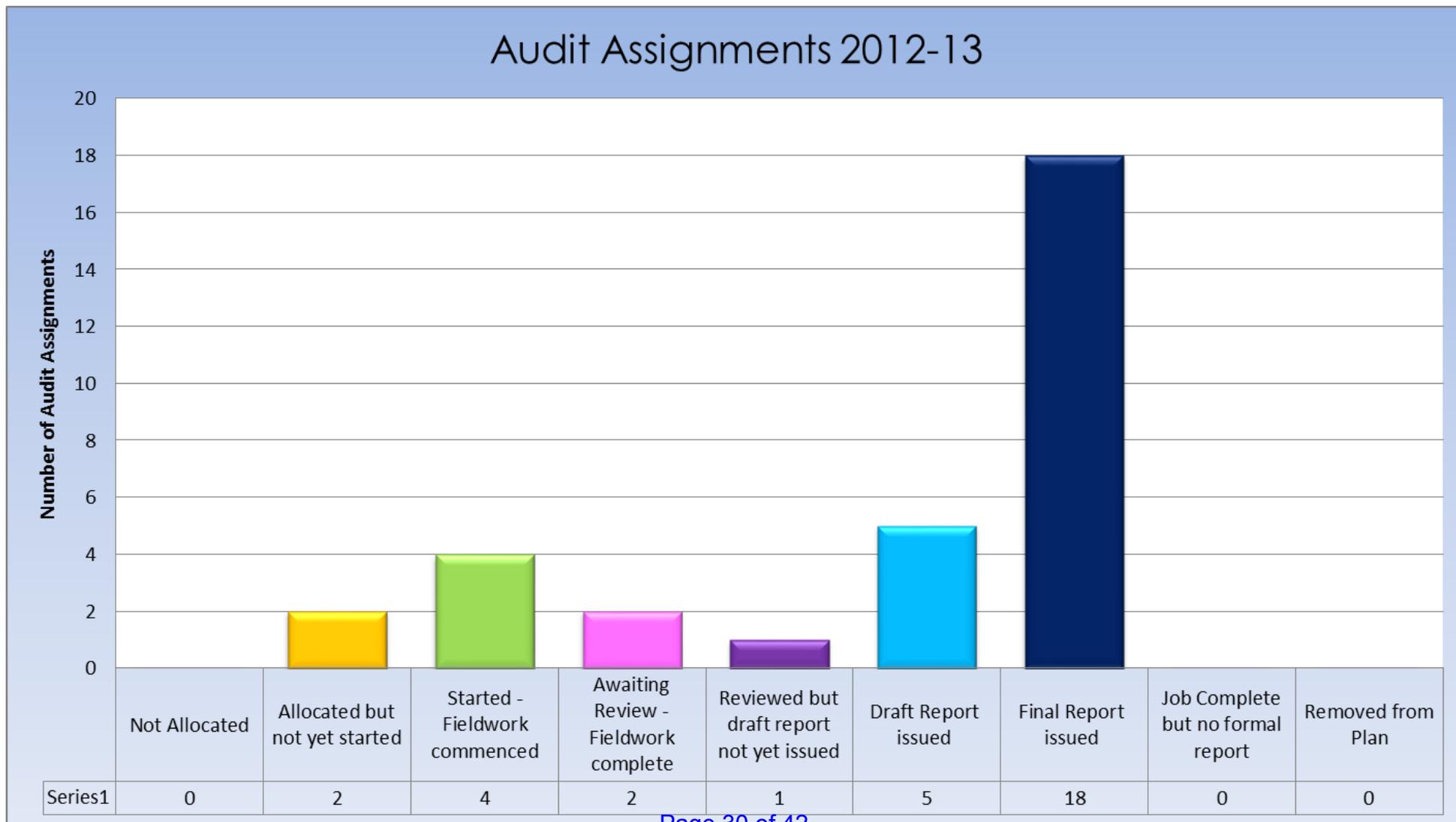
2013-14 Audit Plan Assignments	Type of Audit	Current Status	% Complete
Main Accounting System 2013-14	Key Financial System	Draft Report	95%
Treasury Management 2013-14	Key Financial System	In Progress	65%
Capital Programme	Systems/Risk Audit	Final Report	100%
Council Tax / NNDR / Cashiering 2013-14	Key Financial System	Draft Report	95%
Housing & Council Tax Benefit 2013-14	Key Financial System	Draft Report	95%
Payroll 2013-14	Key Financial System	Final Report	100%
Creditors / Debtors 2013-14	Key Financial System	In Progress	35%
Virtualisation Management	IT Audit	In Progress	75%
Orchard IT Security	IT Audit	In Progress	70%
Client Monitoring - Corporate Services Contract	Systems/Risk Audit	Final Report	100%
Data Protection & Freedom of Information	Governance Review	Allocated	5%
Records Management	Governance Review	Final Report	100%
Data Quality 2013-14	Governance Review	Draft Report	95%
Business Continuity & Emergency Planning	Governance Review	Allocated	10%
Fixed Assets 2013-14	Key Financial System	Final Report	100%
Rent Accounting 2013-14	Systems/Risk Audit	Awaiting Review	80%
Tenants Arrears	Systems/Risk Audit	Awaiting Review	80%
B/Fwd - Treasury Management / Insurance 2012-13	Key Financial System	Final Report	100%
B/Fwd - Email & Internet Services Health-check	IT Audit	Draft Report	95%
B/Fwd - Service Contracts	Procurement/Contract Audit	Reviewed	90%

Twelve assignments (not shown above) were finalised and reported upon at the June, September and December 2013 Audit Sub-Committee meetings.

South Derbyshire District Council – Internal Audit Progress Report

Audit Coverage

Progress on Audit Assignments Chart



South Derbyshire District Council – Internal Audit Progress Report

Audit Coverage

Completed Audit Assignments

Between 1st December 2013 and 31st January 2014, the following audit assignments have been finalised since the last Progress Report was presented to this Committee:

- Capital Programme.
- Payroll 2013-14.
- Client Monitoring - Corporate Services Contract.
- Fixed Assets 2013-14.
- Treasury Management 2012-13.
- Records Management.

The following paragraphs summarise the internal audit work completed in the period.

Capital Programme

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing the Capital Programme to provide assurance that systems were operating effectively over the following control objectives:

- All capital schemes have been approved for inclusion in the Capital Investment and Financing Programme.
- Capital schemes have been prioritised in line with the Council's Medium Term Financial Plan and the Capital Investment and Financing Programme.
- Progress against the Capital Investment and Financing Programme has been adequately monitored.

From the 31 key controls evaluated in this audit review, all 31 were considered to provide adequate control and none contained weaknesses. Accordingly, no recommendations were made.

Payroll 2013-14

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing the Payroll operations to provide assurance that systems were operating effectively over the following control objectives:

- New starters are set up on the payroll system promptly, accurately and on receipt of an authorised instruction.
- Leavers are removed promptly from the payroll system on receipt of an authorised instruction.
- Allowances and deductions paid in addition to salaries are in accordance with agreed procedures, are adequately approved and supported by sufficient evidence.

From the 7 key controls evaluated in this audit review, all 7 were considered to provide adequate control and none contained weaknesses. Accordingly, no recommendations were made.

Client Monitoring – Corporate Services Contract

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing the client monitoring of the Corporate Services Contract to provide assurance that systems were operating effectively over the following control objectives:

- Governance arrangements around contract monitoring are robust and fulfil their purpose.
- The Council have adequate quality control methods in place over functions performed by Northgate and that these provide adequate monitoring of business critical systems, such as revenues and benefits.

South Derbyshire District Council – Internal Audit Progress Report

- Contract monitoring is taken at appropriate levels within the Council in order to validate data quality and service reports.
- Follow up procedures for contract failures / declining performance are adequate and operating effectively.

From the 24 key controls evaluated in this audit review, all 24 were considered to provide adequate control and none contained weaknesses. Accordingly, no recommendations were made.

Fixed Assets 2013-14

Overall Control Assurance Rating: **Comprehensive**

This audit focused on reviewing controls over fixed asset movements in relation to acquisitions, transfers and disposals. It also sought to evaluate controls which ensure assets are included in a revaluation rolling programme and that assets are physically verified to confirm their existence.

From the 19 key controls evaluated in this audit review, 16 were considered to provide adequate control and 3 contained weaknesses. The report contained 2 recommendations, both of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- There was a lack of cross referencing to source authorisation documents making it difficult to verify that all movements on the asset register had been properly authorised. (Low Risk)
- The password configuration for access to the Fixed Asset Register was weak and all user groups had been granted permissions to read, write, execute or modify the document. (Low Risk)

Both of the control issues raised within this report were accepted and positive action had already been taken to address both the issues by the end of the audit.

Treasury Management 2012-13

Overall Control Assurance Rating: **Comprehensive**

This audit focused on Treasury Management policies, investments, the Prudential Code and the Council's management and monitoring arrangements for Treasury Management. The Council did not undertake any temporary borrowings during 2012/13 due to high levels of reserves and capital receipts. Therefore no detailed testing was performed on temporary borrowings during this audit.

From the 32 key controls evaluated in this audit review, 30 were considered to provide adequate control and 2 contained weaknesses. The report contained 2 recommendations, both of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- The office manual was not clear on individual roles and responsibilities when conducting Treasury Management transactions. Accordingly, an appropriate separation of duties was not specified. (Low Risk)
- The Treasury Management Office Manual was not dated or version controlled. (Low Risk)

Both control issues within this report were accepted, one had been addressed before the audit had concluded and positive action to address the remaining issue has been agreed to be taken by 1st April 2014.

Records Management

Overall Control Assurance Rating: **Reasonable**

This audit focused on the adequacy of the Council's records management policies and procedures. This review does not include electronic records management which is included as part of the five year strategic audit IT plan.

From the 20 key controls evaluated in this audit review, 15 were considered to provide adequate control and 5 contained weaknesses. The report contained 4 recommendations, both of which were

South Derbyshire District Council – Internal Audit Progress Report

considered a low risk. The following issues were considered to be the key control weaknesses:

- The Council did not have a Records Management policy in place. (Moderate Risk)
- There was no procedural guidance in place for Records Management. (Low Risk)
- The Council have not addressed the issue of Data Classification. (Low Risk)
- Records were being held off-site as part of arrangements made by the Council. However, the age, nature and quantity of records being held could not be confirmed, as there were no logs available in all cases. (Low Risk)

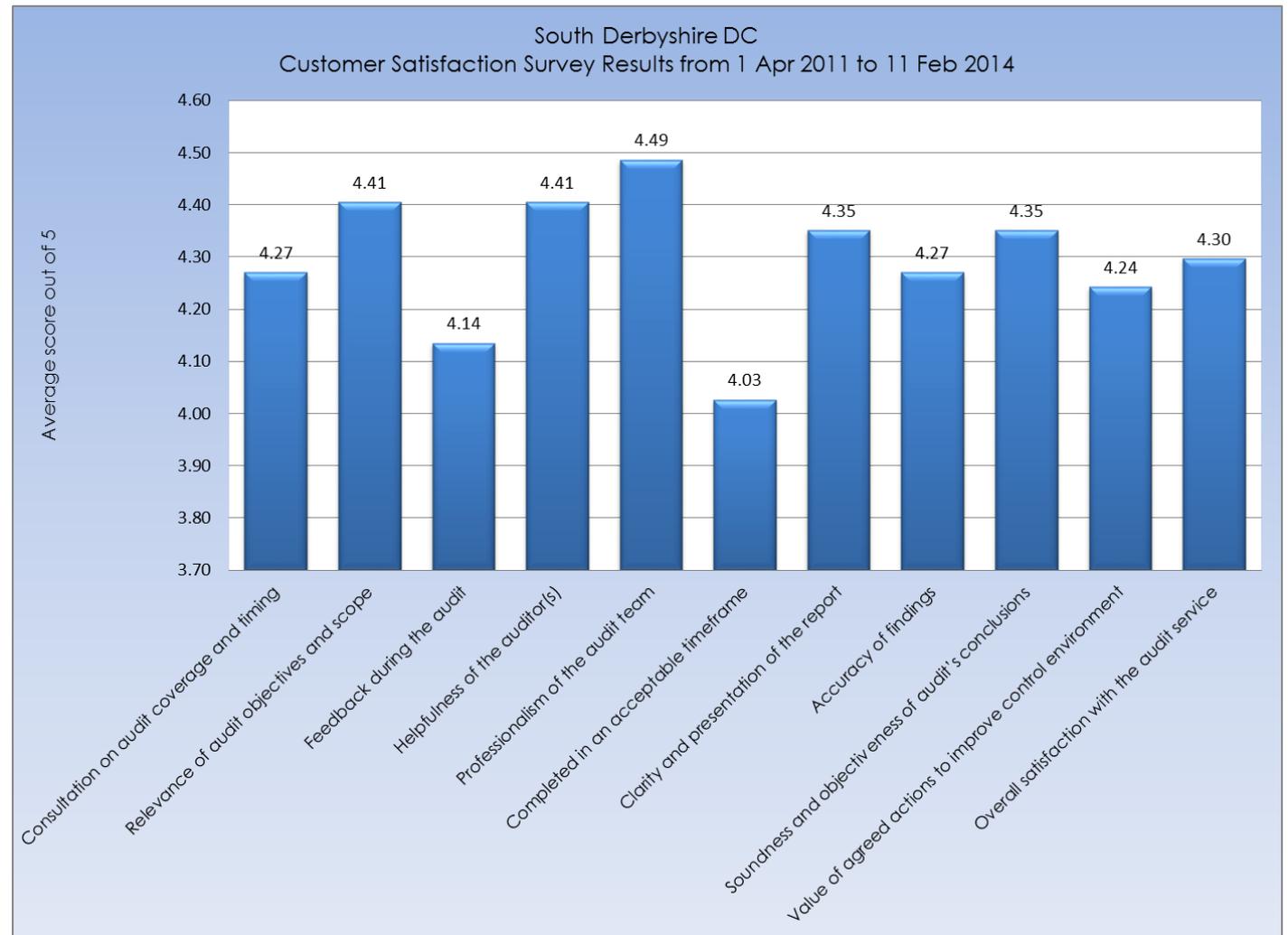
All four control issues within this report were accepted, one was scheduled for implementation by 30th April 2014 and three had been agreed to be implemented by 31st May 2014,

South Derbyshire District Council – Internal Audit Progress Report

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. The chart across summarises the average score for each question from the 37 responses received between 1st April 2011 and 11th February 2014. The overall average score from the surveys was 47.2 out of 55. The lowest score received from a survey was 40, whilst the highest was 55 which was achieved on 2 occasions.



South Derbyshire District Council – Internal Audit Progress Report

Audit Performance

Customer Satisfaction

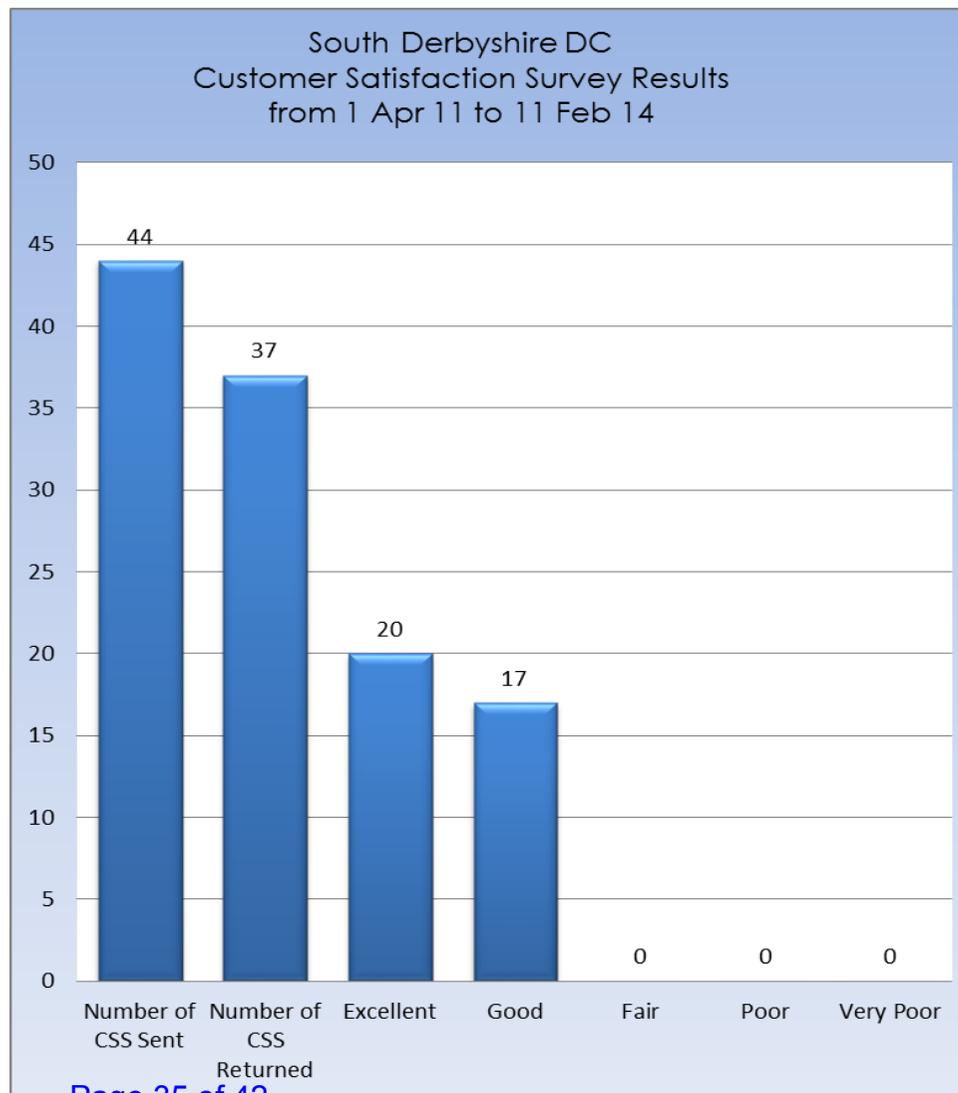
Since 1st April 2011, we have sent 44 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 44 sent we have received 37 responses.

All Customer Satisfaction Surveys have been returned apart from 7 surveys which have already been reported to this Committee and relate to assignments undertaken in previous plan years. Responses to these surveys will no longer be pursued as responses are unlikely to be reliable after this length of time.

The overall responses are graded as either:

- Excellent (scores 47 to 55)
- Good (scores 38 to 46)
- Fair (scores 29 to 37)
- Poor (scores 20 to 28)
- Very poor (scores 11 to 19)

Overall 20 of 37 responses categorised the audit service they received as excellent, another 17 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



South Derbyshire District Council – Internal Audit Progress Report

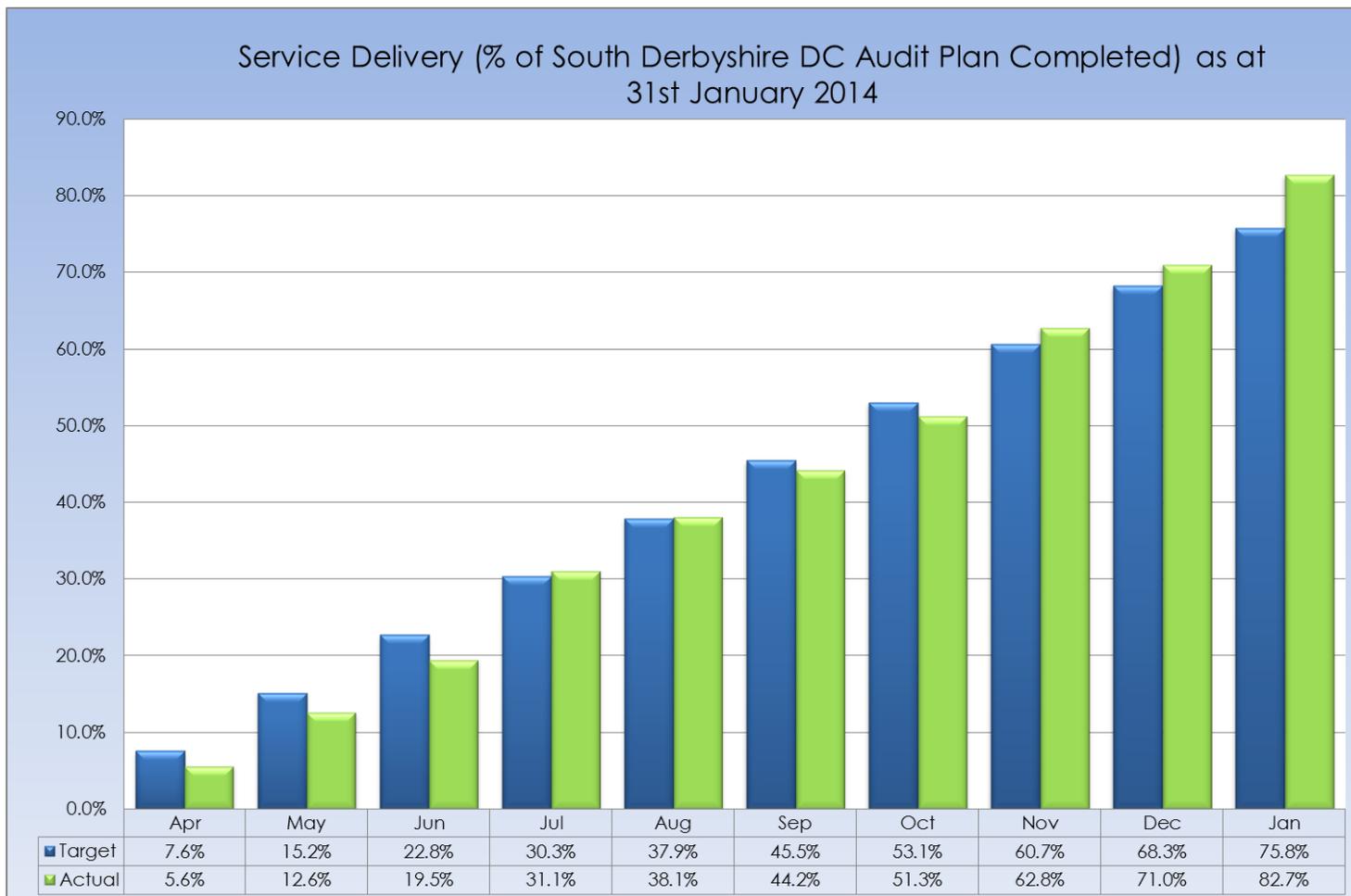
Audit Performance

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 2013-14 Audit Plan (including incomplete jobs brought forward) after 10 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.



South Derbyshire District Council – Internal Audit Progress Report

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 or it has yet to reach its agreed implementation date.
- **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.
- **Risk Accepted** = Management has decided to accept the risk that Audit has identified and take no mitigating action.
- **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).

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.

	Implemented	Being implemented	Risk Accepted	Superseded	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	137	14	3	3	1	9	167
Moderate Risk	33	2	0	3	0	2	40
Significant Risk	8	0	1	0	0	0	9
Critical Risk	0	0	0	0	0	0	0
	178	16	4	6	1	11	216

The table below shows those recommendations not yet implemented by Dept.

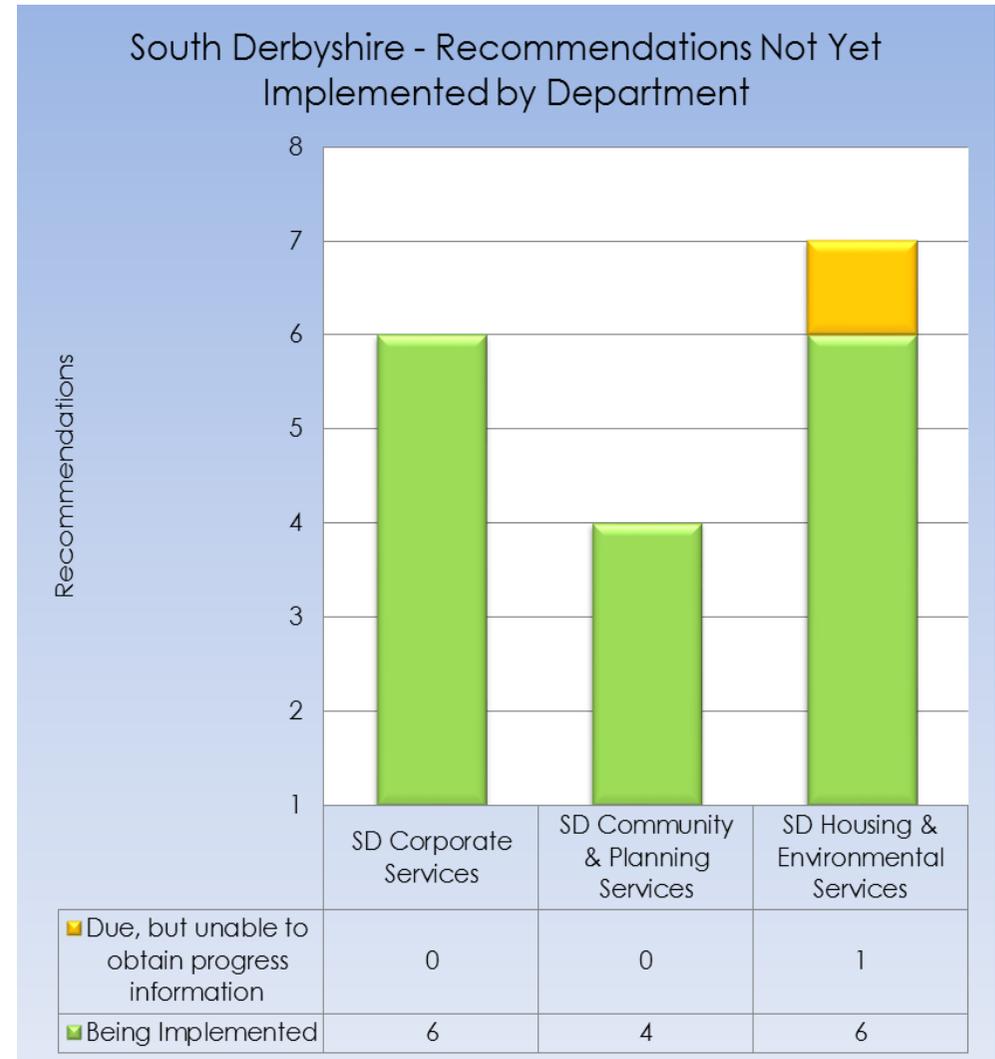
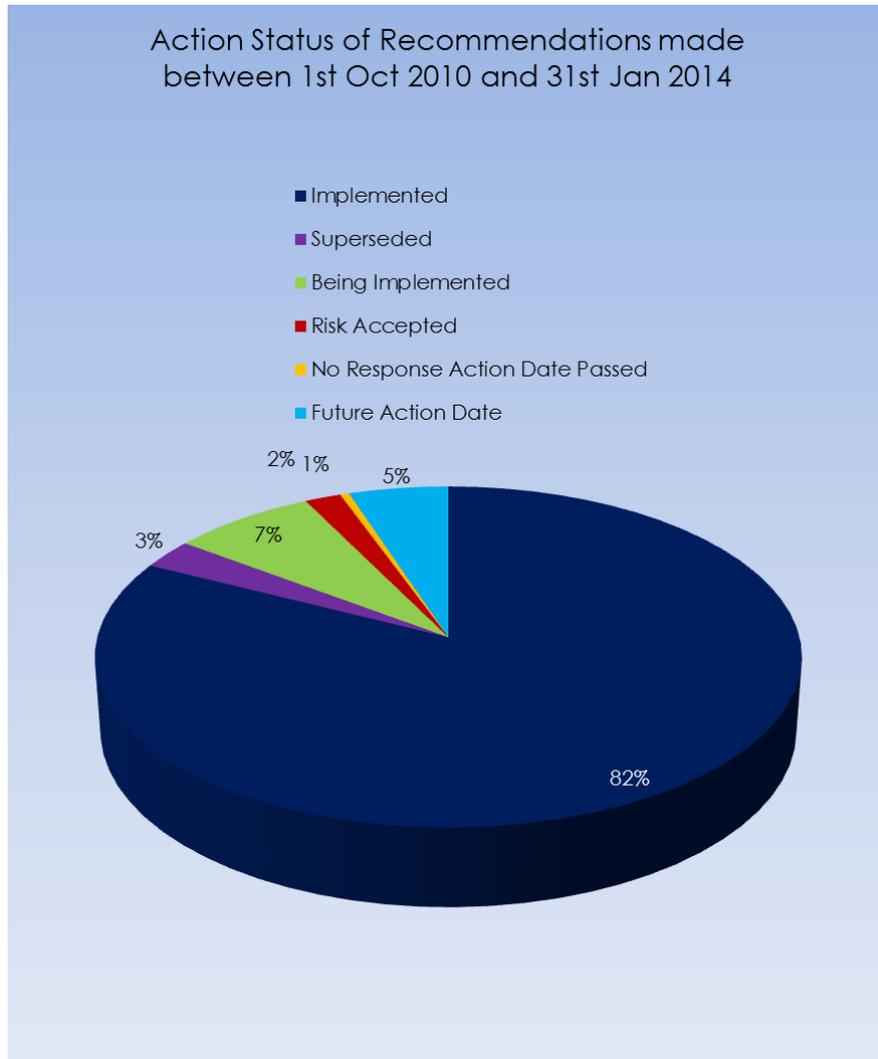
Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being implemented	6	4	6	16
Due, but unable to obtain progress information	0	0	1	1
	6	4	7	17

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. We will provide full details of each recommendation where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). The 4 recommendations shown above, where management has chosen to accept the risk, have already been reported to this Committee.

South Derbyshire District Council – Internal Audit Progress Report

Recommendation Tracking

Implementation Status Charts



South Derbyshire District Council – Internal Audit Progress Report

Recommendation Tracking

Recommendations Not Yet Implemented

Corporate Services

Car Allowances

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.

Risk Rating – Low Risk

Status Update - Following the Budget Round for 2013/14 and the recent Council Restructure, it is anticipated that the Single Status Steering Group will be reconvened later in 2014. This item will be considered, as planned, as part of the pay and grading review. However, any proposals are unlikely to be implemented this financial year.

Original Action Date 30 Jun 11 **Revised Action Date** 31 Mar 14

Risk Management

Control Issue - There was not a documented policy or procedure for reporting and management of incidents.

Risk Rating – Low Risk

Status Update – The Director of Finance and Corporate Services stated on 20 November 2013 that a procedure is currently being drawn up for implementation relating to the reporting and investigation of Health/Safety/Security incidents and near misses. This will be completed by January 2014. This will then be expanded to include property and data incidents by February 2014.

Original Action Date 31 Mar 13 **Revised Action Date** 28 Feb 14

Council Tax / NNDR / Cashiering 2012-13

Control Issue - The safe could be accessed by any one of several officers, with no single officer being accountable for the safe contents.

Risk Rating – Low Risk

Status Update - A tamper proof book is now used into which the contents of the safe and cash bags are logged. The remaining proposals would mean someone staying on beyond their contracted hours to deal with the close of business work. We will look at allowing a bit of time beyond closure time for taking payments to then deal with the end of day stuff.

Original Action Date 15 Jul 13 **Revised Action Date** 15 Apr 14

Legal & Democratic Services

Control Issue - Purchase orders were not being raised for goods and services required in respect of running the election.

Risk Rating – Low Risk

Status Update - Going forward we will now be raising purchase orders for all ordering. This was not undertaken for the County Council elections but will be undertaken going forward. The Elections process has recently been subject to an independent review commissioned by the Chief Executive. Changes to reporting lines have been made and a report will be considered by the Finance and Management Committee.

Original Action Date 30 Nov 12 **Revised Action Date** 31 Mar 14

South Derbyshire District Council – Internal Audit Progress Report

Procurement

Control Issue – Systems and procedures were not in place for monitoring Procurement activity against the Contracts Register.

Risk Rating – Low Risk

Status Update – All parts of this rec, but one, have been implemented. The remaining part, to publish extracts from the Contracts Register on the Council's website or intranet should be implemented during February.

Original Action Date 1 Dec 13 **Revised Action Date** 28 Feb 14

Corporate Governance

Control Issue – The Member and Officer Relations protocol document did not include the responsibility of officers to provide training and development to Members and to respond in a timely manner to queries raised by Members. The document had not been reviewed since 2003.

Risk Rating – Low Risk

Status Update – This will be included in a wider review of the whole Constitution to bring it up to date.

Original Action Date 1 Feb 14 **Revised Action Date** 31 May 14

Housing & Environmental Services

Housing Allocations

Control Issue - The Homefinders guidance informed applicants who disagreed with the banding allocated to them, that there was a Right to a Review leaflet, but no such document existed.

Risk Rating – Low Risk

Status Update - Per the Council's website, the consultation on the Homefinders Allocation policy has just closed and a new policy is to be published soon. The revised publication date for the Homefinders guidance is the end of August 2014

Original Action Date 1 Feb 14 **Revised Action Date** 15 Sep 14

Control Issue - A lack of control over tenancy bid documentation meant that a bid could accidentally, or even deliberately not be input to the system.

Risk Rating – Low Risk

Status Update -

Original Action Date 1 Nov 13 **Revised Action Date**

Control Issue - Unsuccessful applicants are not notified of the reason why their bids for tenancies have failed. Without knowing why they have been unsuccessful, applicants may continue to bid for inappropriate properties.

Risk Rating – Low Risk

Status Update - Partially complete. With numbers of bidders now available on Homefinders. Still to be determine how number of successful bidders will be communicated.

Original Action Date 1 Feb 14 **Revised Action Date** 31 Mar 14

Housing Repairs

Control Issue - The Mutual Repairs Policy had not been established, although it was referred to in the Repairs Policy.

Risk Rating – Low Risk

Status Update - The policy was prepared in draft in March 2012, but the original responsible officer was moved temporarily, then permanently, onto higher priority work. Further delays have occurred as it was decided that it would be incorporated into the Leaseholder policy, which was going out to consultation at the end of Jan 2014.

Original Action Date 30 Jun 11 **Revised Action Date** 31 Mar 14

South Derbyshire District Council – Internal Audit Progress Report

Waste Management

Control Issue - There was no documentation maintained on file in the form of competitor quotes which supported the negotiated, best price offered by the Council.

Risk Rating – Low Risk

Status Update - A review is to take place of the trade refuse service from a business viability viewpoint. If special rates/discounted prices are to continue within the service then there will be a robust procedure for dealing with this.

Original Action Date 1 Apr 13 **Revised Action Date** 28 Feb 14

Control Issue - There were no documented guidelines available for employees to refer to when negotiating a special price for trade waste. This meant that decisions were based on the employees personal judgement and discretion.

Risk Rating – Low Risk

Status Update – A review is to take place of the trade refuse service from a business viability viewpoint. As a temporary measure, staff have been instructed to only arrange new trade refuse contracts on our current fixed charge and that no special rates will be negotiated.

Original Action Date 1 Apr 13 **Revised Action Date** 28 Feb 14

Control Issue - The Council was using historic maximum and minimum pricing parameters which had not been formally approved and may have no longer accurately reflected the latest prices in the trade waste collection market.

Risk Rating – Moderate Risk

Status Update - Due to a significant number of major service issues needing resolution, the timescale for this item needs to be changed. I have agreed a departmental work programme with Bob Ledger and the review of trade waste will take place following the implementation of the new kerbside recycling scheme in October. This should allow us time to

make the necessary improvements to trade refuse charging in time to implement with next year's fees and charges report.

Original Action Date 1 Apr 13 **Revised Action Date** 31 Dec 13

Community & Planning Services

Leisure Centres

Control Issue – Reports to the Council had not been provided in line with contractual requirements. The monthly Impact Reports contained too much details and it was not clear which data referred to the contractual performance measures.

Risk Rating – Low Risk

Status Update – The Culture & Community Manager stated on 7 February 2014 that he had discussed this at review meeting. Anticipate implementation after performance review and contract variation.

Original Action Date 30 Nov 13 **Revised Action Date** 14 Mar 14

Control Issue – The Leisure Management Contract was in draft form, despite Active Nation being in the third year of service delivery.

Risk Rating – Moderate Risk

Status Update – The Culture & Community Manager stated on 7 February 2014 that a revised and final contract has been sent by the Council to AN solicitors. AN solicitors requested a moved deadline as the solicitor dealing was off most of December. They still haven't delivered, so the Council's solicitors have been asked to chase and press for a response.

Original Action Date 25 Oct 13 **Revised Action Date** 14 Mar 14

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Control Issue – A number of issues were identified with the performance measures and indicators and as a result, performance was not being monitored in line with the contract.

Risk Rating – Low Risk

Status Update – The Culture & Community Manager stated on 7 February 2014 that the relevant officer has been unavailable to progress whilst "seconded" to work on a bid for another contract. However, he has now returned to work on this contract and we have had an initial review where we agreed the basics of changes to the KPIs. We are now in the midst of follow up work further to reconvening on Feb 24th at the scheduled annual performance review at which the performance related contract payment will be discussed.

Original Action Date 30 Nov 13 **Revised Action Date** 14 Mar 14

Control Issue - Some data within the Impact Report for April 2012 was found to be inaccurate. Active Nation had not documented the methodology for calculating the performance figures or the source of data. There was a lack of internal checks at Active Nation on the reported figures and methods of calculation. Where data was incorrect, it had not been amended in the following periods.

Risk Rating – Low Risk

Status Update - The Culture & Community Manager stated on 7 February 2014 that this was discussed at KPI review meeting and formal request will form part of contract variation that will follow the annual performance review. Sample checking support from accountancy already requested and agreed.

Original Action Date 31 Oct 13 **Revised Action Date** 14 Mar 14
