



## Derby City Council– Internal Audit Annual Report 2015-16

Audit & Accounts Committee: 6<sup>th</sup> July 2016



## 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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## Introduction

### How an Audit Opinion is Formed

A fundamental role of Internal Audit is to provide members and senior management with independent assurance on the Council's overall control environment, comprising the systems of governance, risk management, and internal control and to highlight control weaknesses together with recommendations for improvement. The annual Audit Plan sets out proposals on how this will be achieved in the year ahead.

The Audit Plan must incorporate sufficient work to enable the Head of Audit to give an opinion on the adequacy of the Council's overall control environment. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.

The audit work planned for 2015/16 has informed the Head of Audit's opinion on the internal control environment that exists within the Council. The Head of Audit reports his overall opinion to the Audit & Accounts Committee on an annual basis.

The Head of Internal Audit provides this written report to those charged with governance which gives an opinion on the overall adequacy and effectiveness of the organisation's internal control environment. This is timed to support the Annual Governance Statement, which is also being presented to this Committee for review by Members before being signed off by the Chair of Audit & Accounts, the Monitoring Officer, the Leader of the Council and the Chief Executive.

Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of financial and other management controls.

The Head of Audit's overall audit opinion is based on the work

undertaken by internal audit in 2015/16. The reporting of the incidence of significant control failings or weaknesses has also been covered in the progress reports to the Committee on Internal Audit's progress against the annual audit plan.



### Basis for Opinion

The Internal Audit Service for Derby City 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 its Internal Audit Charter.

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In preparing the overall opinion, the Head of Audit has reviewed all audit activity carried out during 2015/16 and noted any issues arising from those audits that have carried forward into 2016/17. Each individual audit undertaken contains a control assurance rating (opinion) on the adequacy and effectiveness of controls in place to mitigate the risks identified. Where weaknesses in control are identified, an action plan is agreed with management. Progress with these agreed actions is monitored by Internal Audit during the year through follow up audit work.

The Head of Audit will use the individual assurance ratings from the audits conducted in 2015/16 and the progress with agreed actions to form the overall opinion.

In presenting his opinion, the Head of Audit will identify where reliance has been placed on work by other assurance bodies. His opinion will be based on the work of Internal Audit and his understanding of work carried out by external assurance agencies.

In respect of the key financial systems of the Council, based on the Internal Audit work undertaken in the year, the Head of Audit will be able to give an overall assurance on the adequacy and effectiveness of the internal controls operating in these systems.

### Effectiveness of Internal Audit

The Accounts and Audit Regulations 2011 6(3), required the Council to undertake an annual review of the effectiveness of its internal audit and to report the findings of this review to a Committee (in the case of this authority, the Governance & Audit Board). The Accounts and Audit Regulations 2015 no longer require

this and any future review of Internal Audit must be compliant with the Public Sector Internal Audit Standards (PSIAS). PSIAS requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

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## Head of Audit's Opinion 2015-16

Based on the work undertaken during the year, I have reached the overall opinion that **there is an acceptable level of internal control within the Council's systems and procedures**. I have arrived at this opinion having regard to the following:

- The level of coverage provided by Internal Audit was considered minimal. Please note, the Council's Chief Executive has procured additional audit coverage from CMAP for 2016-17.
- No reports provided a 'Limited' control assurance rating, all areas examined were judged to be either 'Comprehensive' or 'Reasonable'.
- There were no 'critical risk' recommendations made and only 3 recommendation attracted a 'significant risk' rating within any audit reports issued in 2015-16.
- There were no adverse implications for the Authority's Annual Governance Statement arising from any of the planned work that Internal Audit has undertaken in 2015-16.
- We have commenced 3 investigations during 2015-16, but none have identified significant weaknesses in the Council's governance and risk management arrangements.
- The Monitoring Officer continues to demonstrate an effective level of challenge to the Council's decision making processes which has ensured the activities of the Council have been lawful.
- All of the issues raised within the internal audit reports have been accepted.
- Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issue, have been agreed to be implemented in all cases but 14 recommendations, where management has chosen to accept the risk. Two of these risk issues were considered to pose a moderate risk, whereas the other 12 were only

considered to pose a low risk. It should be noted that this is an increasing trend.

- An audit review of Risk Management was finalised in February 2014 and the overall level of assurance was at that time considered 'Limited'. Seven of the nine recommendations have now been addressed. Another audit review of risk management commenced in 2015-16 and the overall level of assurance has improved to 'Reasonable'.
- We examined one of the Council's key performance measures as part of our Data Quality review and deemed that the overall control environment was Reasonable.
- Our data matching exercises produced over 16,800 cases of potential oversights, errors or frauds. Over 99% were resolved without concern and the remainder have been referred for further investigation and resolution.
- Internal Audit undertook sufficient work to enable the Chief Financial Officer to state that he received adequate assurance over schools' standards of financial management and the regularity and propriety of their spending.
- During 2015-16, Internal Audit assisted Grant Thornton in its investigation of the significant governance weaknesses identified during 2014-15. It is perceived that these weaknesses have started to be addressed during 2015-16; with a greater focus being placed on the Council's Governance arrangements. As a result, significant resources have been input to the Council's Information Governance, Risk Management and Insurance services.

This opinion is provided with the following caveats:

- No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.

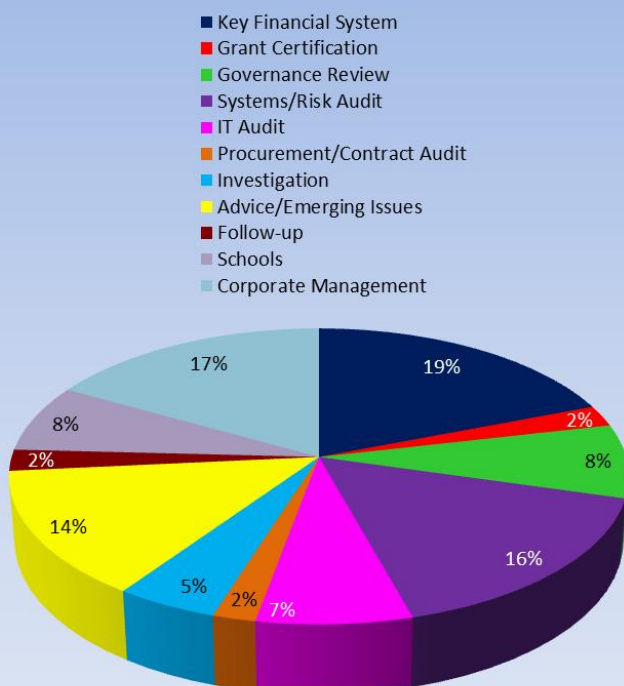
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- Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each individual audit report are to be realised.

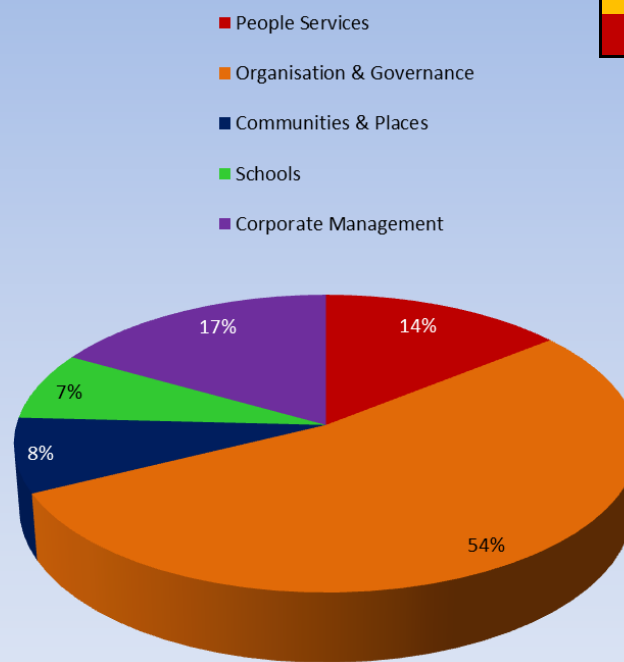
## Audit Coverage

The following charts seek to demonstrate the breadth of audit coverage provided to Derby City Council during 2015-16. The third table and chart shows for those audits finalised during 2015-16, the number of controls examined and an evaluation of their adequacy.

Coverage per Type of Audit  
2015-16

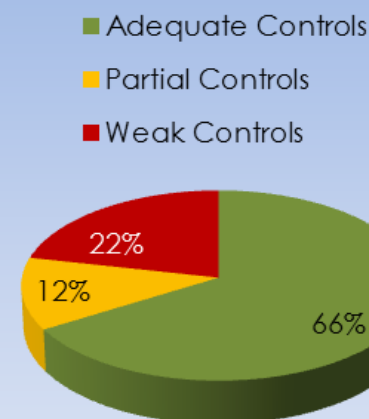


Coverage per Department  
2015-16



Derby City Council 2015-16	
Evaluated Controls	603
Adequate Controls	399
Partial Controls	74
Weak Controls	130

Derby City



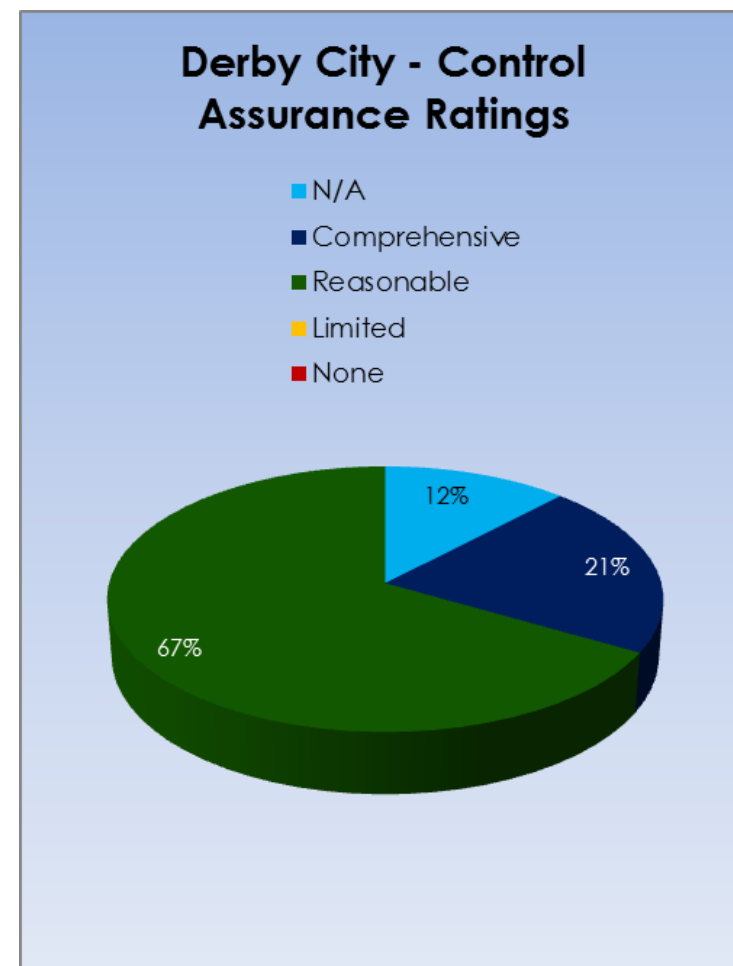
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## Control Assurance Ratings

All audit reviews contain an overall opinion based on the adequacy of the level of internal control in existence at the time of the audit. These are graded as either:

- **N/A** – The type of work undertaken did not allow us to reach a conclusion on the adequacy of the overall level of internal control.
- **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.
- **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.
- **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.
- **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.

This report rating is determined by the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks. These charts exclude control assurance ratings arising from schools SFVS reviews.

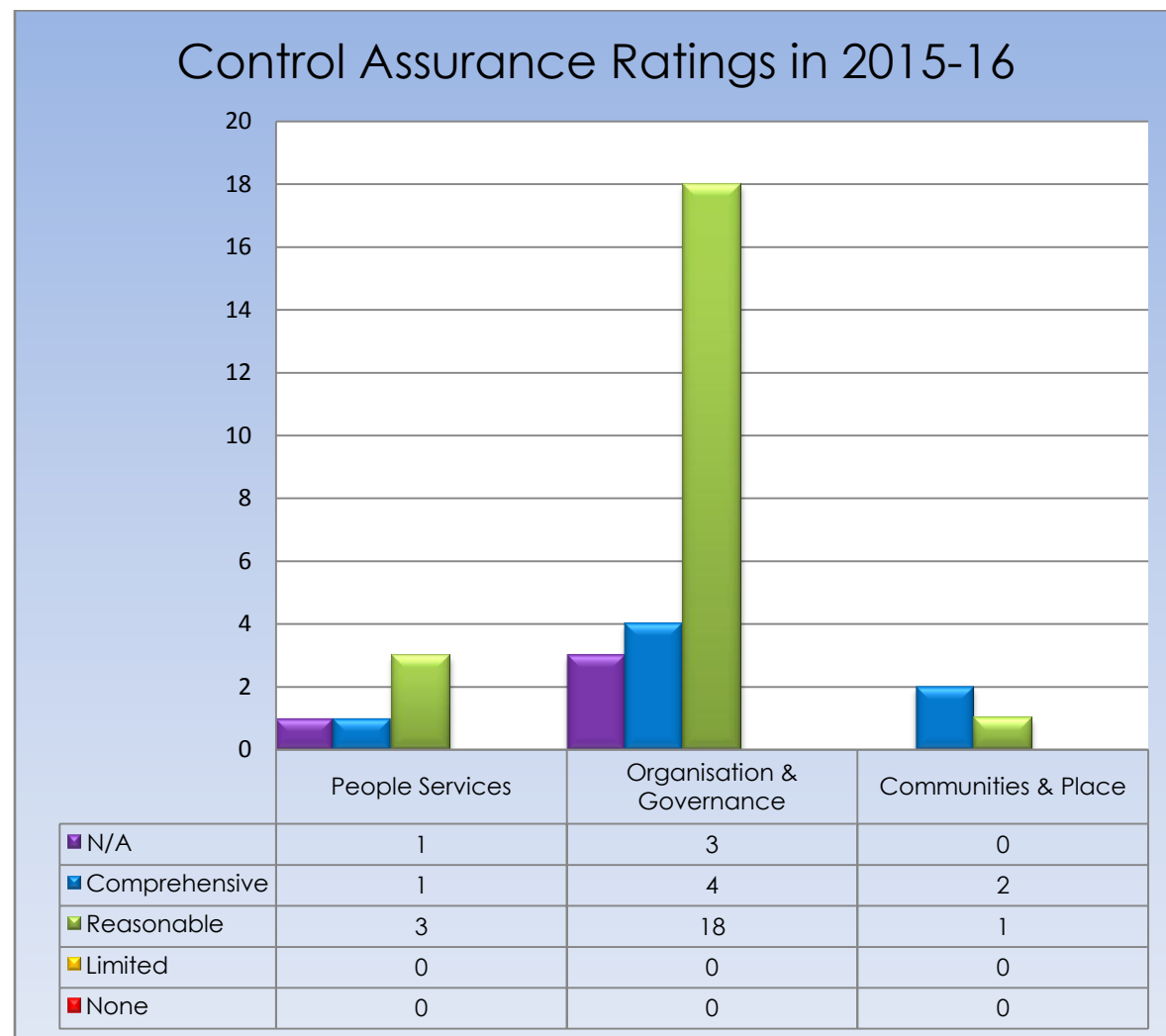




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## Control Assurance Ratings

A summary of control assurance ratings given by directorate for 2015/16 is shown in the table below.





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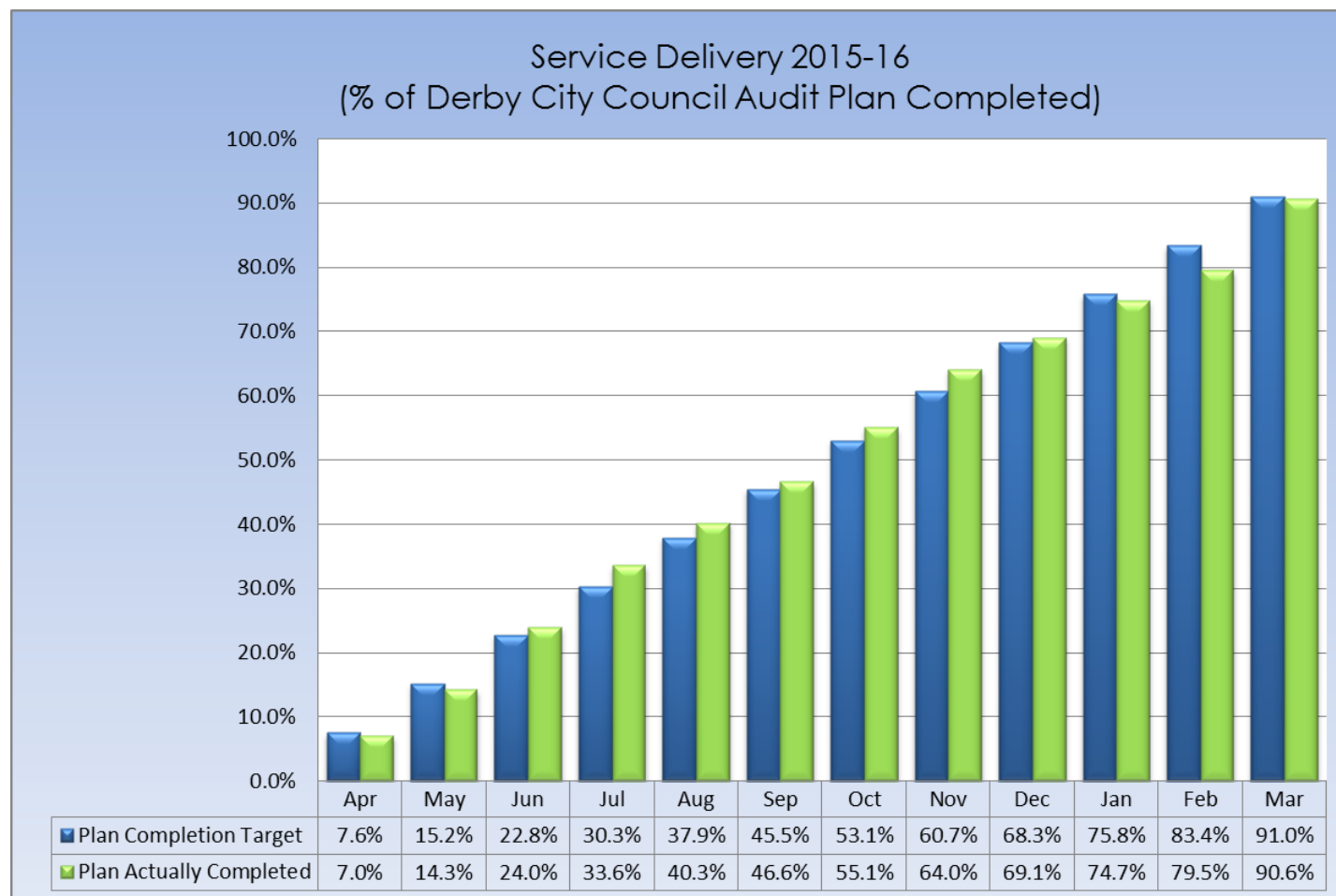
## Performance Measures

### 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 Derby City's 2015-16 Audit Plan at the end 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.



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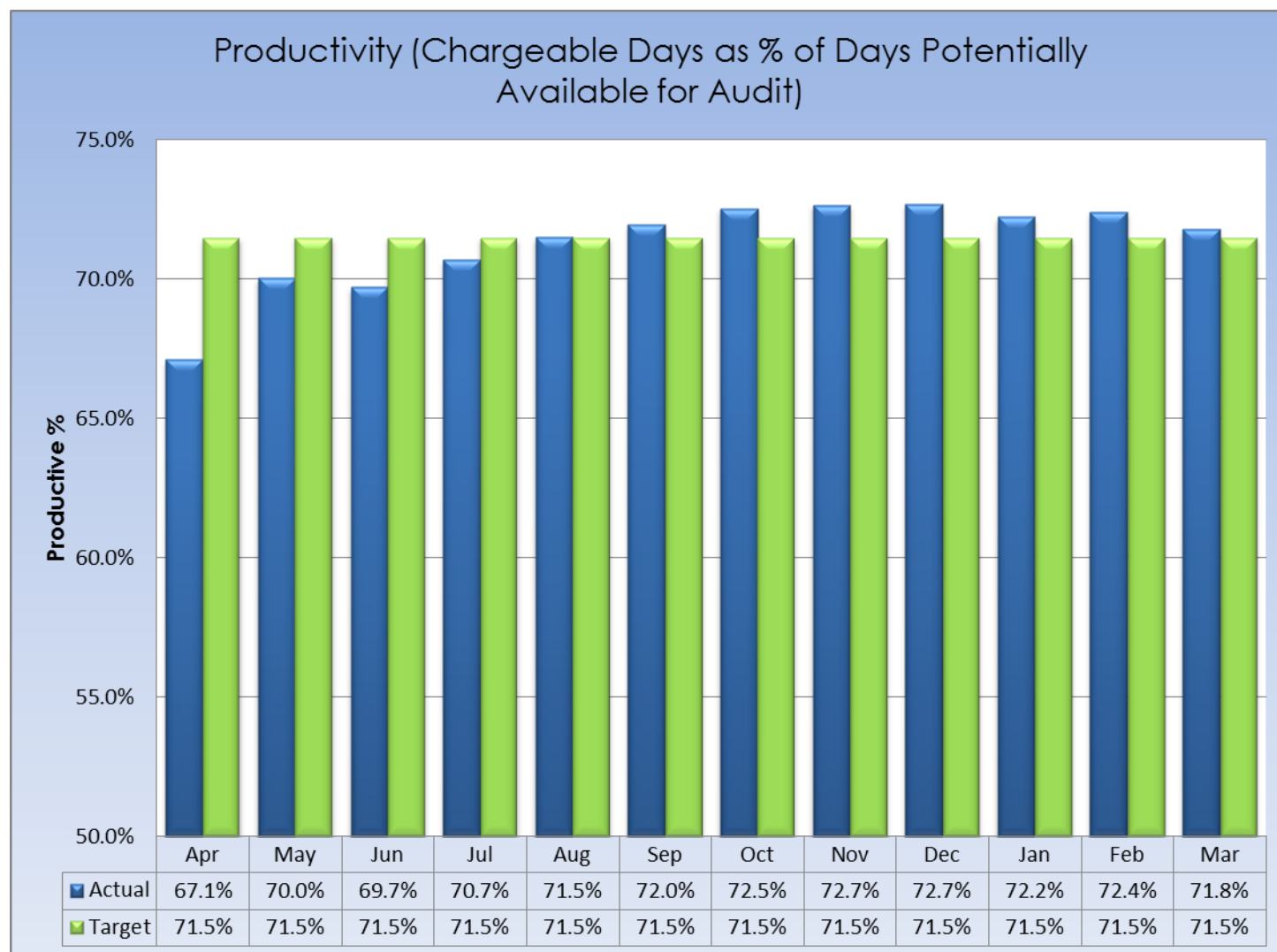
## Performance Measures

### Productivity (Chargeable Days as % of Days Potentially Available for Audit)

Audit staff record the time they spend on audit assignments, administration and management in our bespoke database. Every minute worked is logged against an appropriate code. This time is analysed and compared to planned audit work.

Time is analysed between Productive and Non-productive time. We aim to achieve a target productive rate of 71.5% for the year. The average productive rate for the year was 71.8%.

The chart opposite shows how the productivity of the team has fluctuated over the year.



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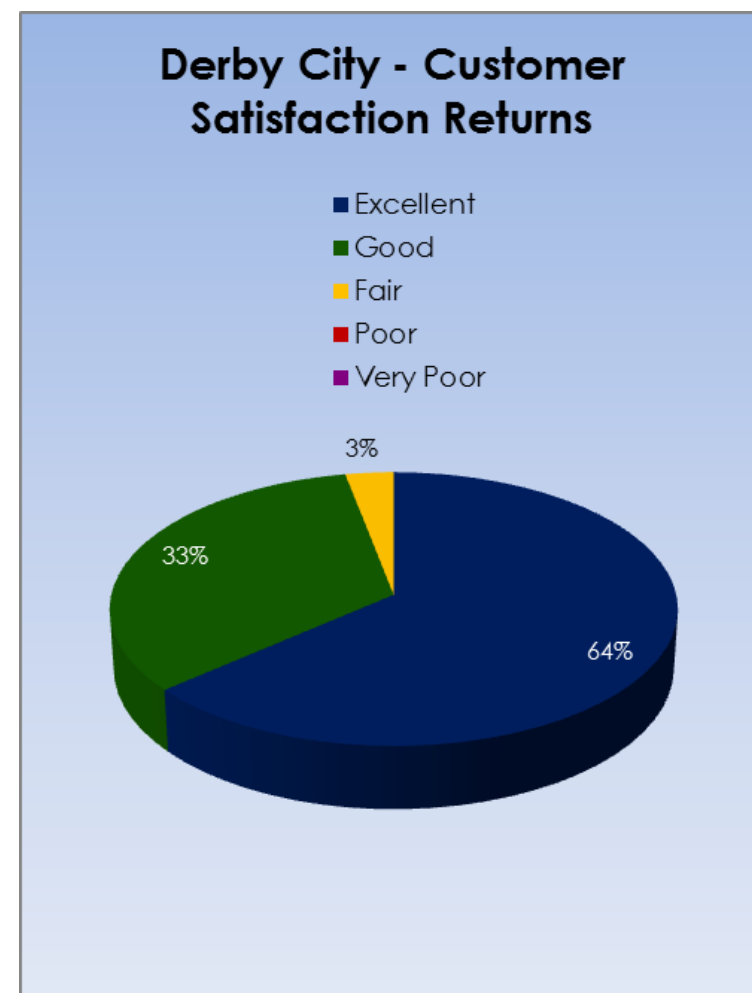
## Customer Satisfaction Returns

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 33 responses received. The average score from the surveys was 48.7 out of 55. The lowest score received from a survey was 36, while the highest was 55.

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 21 of 33 responses categorised the audit service they received as excellent; another 11 responses categorised the audit as good and 1 categorised the audit as fair. There were no overall responses that fell into the poor or very poor categories.



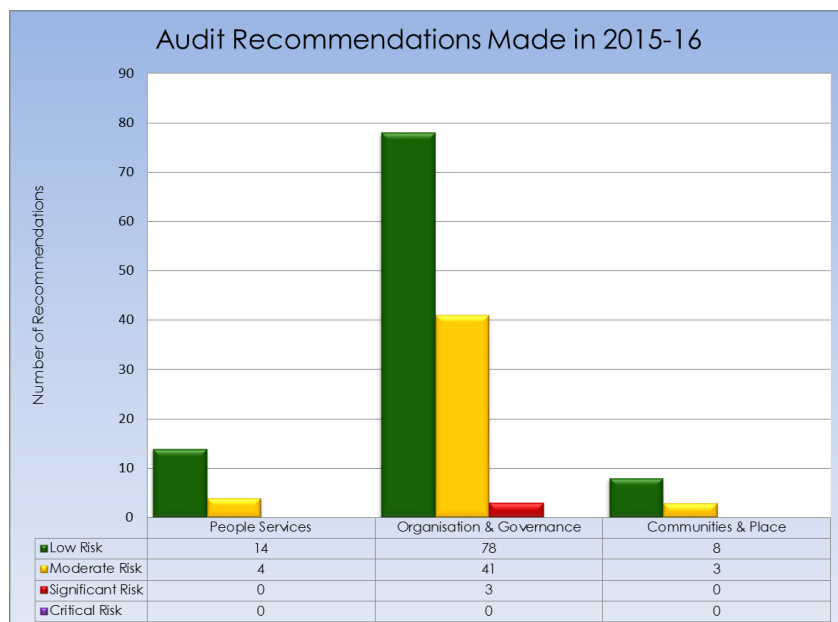
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## Audit Recommendations

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:

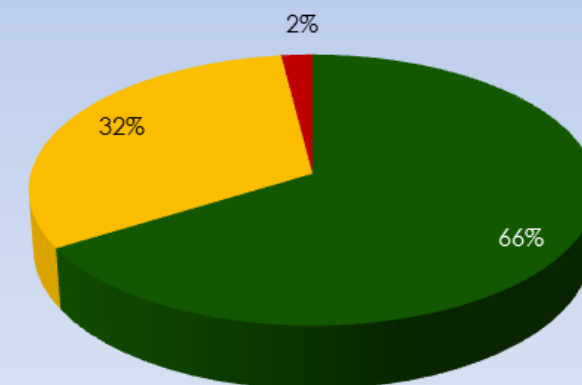
- **Low risk.**
- **Moderate risk.**
- **Significant risk.**
- **Critical risk.**

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. A summary of recommendations made, by directorate, for 2015-16 is shown in the table below.



## Derby City - Recommendation Risk Ratings

- Low Risk
- Moderate Risk
- Significant Risk
- Critical Risk



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### Recommendations Action Status

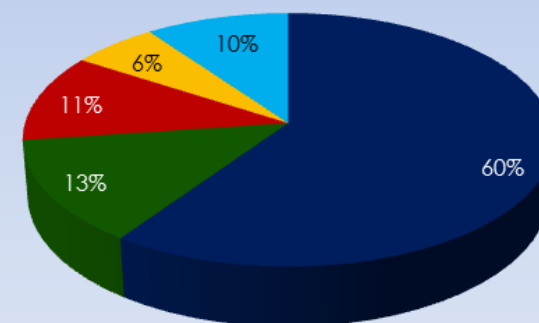
Internal Audit sends emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We request an update on each recommendation's implementation status, which is fed back into the database, along with any revised implementation dates.

Each recommendation made by Internal Audit has been 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:

- **Implemented**= Audit has received assurances that the agreed actions have been implemented.
- **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).
- **Superseded**= Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.
- **Accept Risk**=Management has decided to accept the risk that Audit has identified and take no mitigating action.
- **Action Due**= Audit have been unable to ascertain any progress information from the responsible officer.
- **Future Action**=The recommendations haven't reached their agreed action date

#### Derby City - Recommendation Action Status

- Implemented
- Being Implemented
- Superseded
- Accept Risk
- Action Due
- Future Action



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### Recommendations Action Status



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A summary of the action status of recommendations by directorate for 2015/16 is shown in the table below.

