

HEAD OF INTERNAL AUDIT – ANNUAL AUDIT OPINION 2010/11

SUMMARY

- 1.1 This report provides members with the Head of Audit and Risk Management's opinion on the adequacy and effectiveness of the Council's internal control environment.
- 1.2 The report also provides details on the overall performance of the internal audit function for the period 1 June 2010 to 31 May 2011.

RECOMMENDATIONS

- 2.1 To note the Head of Audit and Risk Management's opinion on the internal control environment.
- 2.2 To note the activity and performance of Internal Audit for the year.

REASONS FOR RECOMMENDATIONS

- 3.1 To comply with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the UK, the Head of Audit and Risk Management must provide an opinion on the adequacy and effectiveness of the Council's control environment to those charged with Governance.
- 3.2 To provide Audit and Accounts Committee with an overall view of the performance of the internal audit service in the 12 months to 31 May 2011.

SUPPORTING INFORMATION

Annual Audit Opinion

- 4.1 Under the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, the Head of Internal Audit (HIA) should provide a written report to those charged with governance. 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 Leader of the Council and Chief Executive. The Head of Internal Audit should give an opinion on the overall adequacy and effectiveness of the organisation's internal control environment.
- 4.2 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 overall audit opinion is based on the work undertaken by internal audit in 2010/11. 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.
- 4.3 Based on the work undertaken during the year, the Head of Audit and Risk Management has reached the overall opinion **that there is an acceptable level of internal control within the Council's systems and procedures.** There were no fundamental recommendations made within any audit reports issued in 2010/11.
- 4.4 No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.

Basis For Opinion

- 4.5 In preparing the overall opinion, the Head of Audit and Risk Management has reviewed all audit activity carried out during 2010/11, which represented a completion rate of 91.8% of the planned programme of activity. Each individual audit undertaken contains a control rating (opinion) on the adequacy and effectiveness of controls in place to mitigate the risks identified. 5 levels of "control rating" are given for each audit review, ranging from good through to unsound. 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.
- 4.6 The Head of Audit and Risk Management has used the individual control ratings from the audits conducted in 2010/11 and the progress with agreed actions to form the overall opinion.
- 4.7 In presenting the opinion, the Head of Internal Audit should identify where reliance has been placed on work by other assurance bodies. This opinion has been based on the work of Internal Audit and our understanding of work carried out by external assurance agencies such as the Audit Commission.
- 4.8 In respect of the key financial systems of the Council, based on the work undertaken in the year, the Head of Audit and Risk Management is able to give an overall assurance on the adequacy and effectiveness of the internal controls operating in these systems.

- 4.9 A summary of control ratings given by directorate for 2010/11 is shown in Table 1 below:

Table 1: Audit control rating in Final Reports issued in 2010/11 by Directorate.

| Directorate | Good | Satisfactory | Marginal | Unsatisfactory | Unsound | No Opinion | Total |
|--------------------------|-----------|--------------|-----------|----------------|----------|------------|-----------|
| Neighbourhoods | 1 | 2 | 0 | 0 | 0 | 2 | 5 |
| Children & Young People | 4 | 2 | 2 | 0 | 0 | 3 | 11 |
| Resources | 4 | 13 | 9 | 4 | 0 | 9 | 39 |
| Chief Executive's Office | 3 | 1 | 1 | 1 | 0 | 1 | 7 |
| Adult Health & Housing | 2 | 2 | 3 | 0 | 0 | 0 | 7 |
| Total | 14 | 20 | 15 | 5 | 0 | 15 | 69 |

Note: This table also does not include the opinion from 35 audits undertaken on behalf of external bodies and the 22 Financial Management Standard in Schools assessments undertaken.

Overall Performance of Internal Audit

- 4.10 Internal Audit completed 91.8% of the planned programme of audit work in 2010/11. The annual target was for 91% completion of the plan. One additional assignment, leisure centre – cash ups, was introduced into the plan during the period, while the Vehicle and Plant review in Neighbourhoods was re-introduced as the planned Safeguarding audit had to be postponed due to the Ofsted inspection. Appendix 2 summarises the output of internal audit for the year and provides graphs to demonstrate performance over the audit year. During the year, 69 audits were finalised. The Audit Section also finalised a further 35 audits as part of our external contracts with Derby Homes, Derbyshire Fire Authority, Amber Valley BC, South Derbyshire DC and the East Midlands Regional Improvement and Efficiency Partnership.
- 4.11 The team delivered a total of 1900.50 productive days in the year, which was 222.50 less productive days than was originally planned. In the main, this was due to a new post not being filled when expected, planned days not being bought in as expected, more days being incurred for the office move, the extra bank holiday and other unplanned leave and Head of Audit taking over the management of other services. Over the 2010/11 internal audit year the team achieved a productive rate of 70.3%. The target productive rate for the year was 73.5%.
- 4.12 At the end of the audit year (31 May 2011), there were 31 audits still in progress to carry forward into the 2011 -12 plan.
- 4.13 Internal Audit's income for the 2010/11 financial year from its external contracts was £96,600.
- 4.14 During 2010/11 audit year, a total of 304 recommendations were made (this excludes external contracts). This compares to the 337 recommendations made in 2009-10. The breakdown of recommendations made is shown below:

| Category of Recommendation | Number made |
|----------------------------|-------------|
| Fundamental | 0 |
| Significant | 135 |
| Merits Attention | 169 |

4.15 The actual time spent by directorate and on specific types of audit work is shown in table 2 and table 3 below:

Table 2: Audit Days Spent by Directorate in 2010/11

| Directorate | Actual Days | % |
|---------------------------|----------------|---------------|
| Chief Executive's Office | 114.50 | 6.0% |
| Children and Young People | 285.00 | 15.0% |
| Resources | 860.25 | 45.3% |
| Neighbourhoods | 124.00 | 6.5% |
| Adults, Health & Housing | 117.50 | 6.2% |
| External Bodies | 399.25 | 21.0% |
| Total | 1900.50 | 100.0% |

Table 3: Time spent on key areas of audit work in 2010/11

| Audit Area | Actual Days | % |
|------------------------------|----------------|---------------|
| Advice to Clients | 123.25 | 6.5% |
| Investigations | 127.25 | 6.7% |
| Governance | 4.25 | 0.2% |
| Follow-up Work | 44.25 | 2.3% |
| Certification Work | 19.00 | 1.0% |
| Performance Indicator Audits | 51.00 | 2.7% |
| Managed Audits | 324.75 | 17.1% |
| IT Audits | 170.50 | 9.0% |
| Contract/Partnership Audits | 30.75 | 1.6% |
| Systems Audits | 233.00 | 12.3% |
| Probity Audits | 232.50 | 12.2% |
| Schools FMSiS | 140.75 | 7.4% |
| External bodies | 399.25 | 21.0% |
| Total | 1900.50 | 100.0% |

- 4.16 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 3 summarises the average score for each category from the 38 responses received. The average score from the surveys was 47.2 out of 55. The lowest score received from a survey was 39, while the highest was 55, which was achieved on 5 responses.

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 20 of 38 responses categorised the audit service they received as excellent, while the other 18 response categorised the audit as good. There were no responses that fell into the fair, poor or very poor categories.

- 4.17 A survey on the perceptions of internal audit was carried out with Strategic Directors and Service Directors at the year end. Seven responses out of 25 were received. The survey consisted of 9 questions which asked the respondent to grade the Internal Audit service as Excellent, Good, Fair, Poor or Very Poor for each question. From the 7 responses received, one respondent rated the overall audit service provided as excellent, 5 rated it as good and one rated it as fair. The survey showed that one area for improvement is around the level of consultation on audit coverage which was rated as poor by one respondent and fair by another 4.

OTHER OPTIONS CONSIDERED

5.1 N/A

This report has been approved by the following officers:

| | |
|--------------------------------|-----|
| Legal officer | n/a |
| Financial officer | n/a |
| Human Resources officer | n/a |
| Service Director(s) | n/a |
| Other(s) | n/a |

| | |
|--------------------------------------|--|
| For more information contact: | Richard Boneham, Head of Audit and Risk Management, 01332 643280 richard.boneham@derby.gov.uk |
| Background papers: | None |
| List of appendices: | Appendix 1 – Implications Appendix 2 – Internal Audit Output Summary 2010/11 Appendix 3 – Results of Customer Satisfaction Survey |

| |
|---------------------|
| IMPLICATIONS |
|---------------------|

Financial and Value for Money

- 1.1 None directly arising.

Legal

- 2.1 Under the Accounts and Audit (England) Regulations 2011, the Council is required to maintain an adequate and effective internal audit.

Personnel

- 3.1 None directly arising.

Equalities Impact

- 4.1 None directly arising.

Health and Safety

- 5.1 None directly arising.

Environmental Sustainability

- 6.1 None directly arising.

Asset Management

- 7.1 None directly arising.

Risk Management

- 8.1 Internal Audit provides the organisation with objective assurance on whether the major business risks are being managed appropriately and provides assurance that the risk management and internal control framework is operating effectively.

Corporate objectives and priorities for change

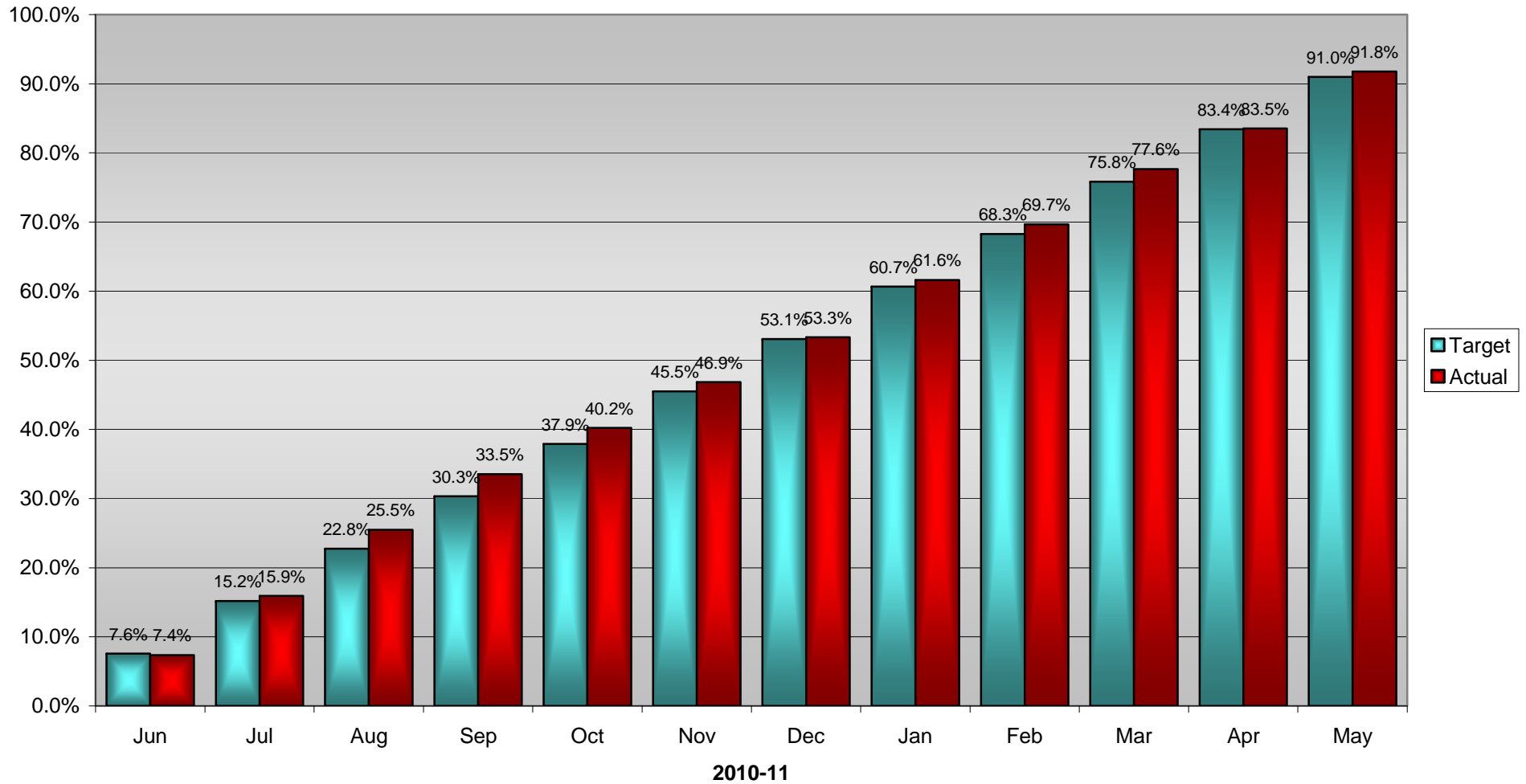
- 9.1 Internal Audit contributes through its review work on the major corporate risks to the Council achieving corporate objectives and priorities. This is achieved by the audit of key systems and corporate governance issues and the associated risks.

Appendix 2

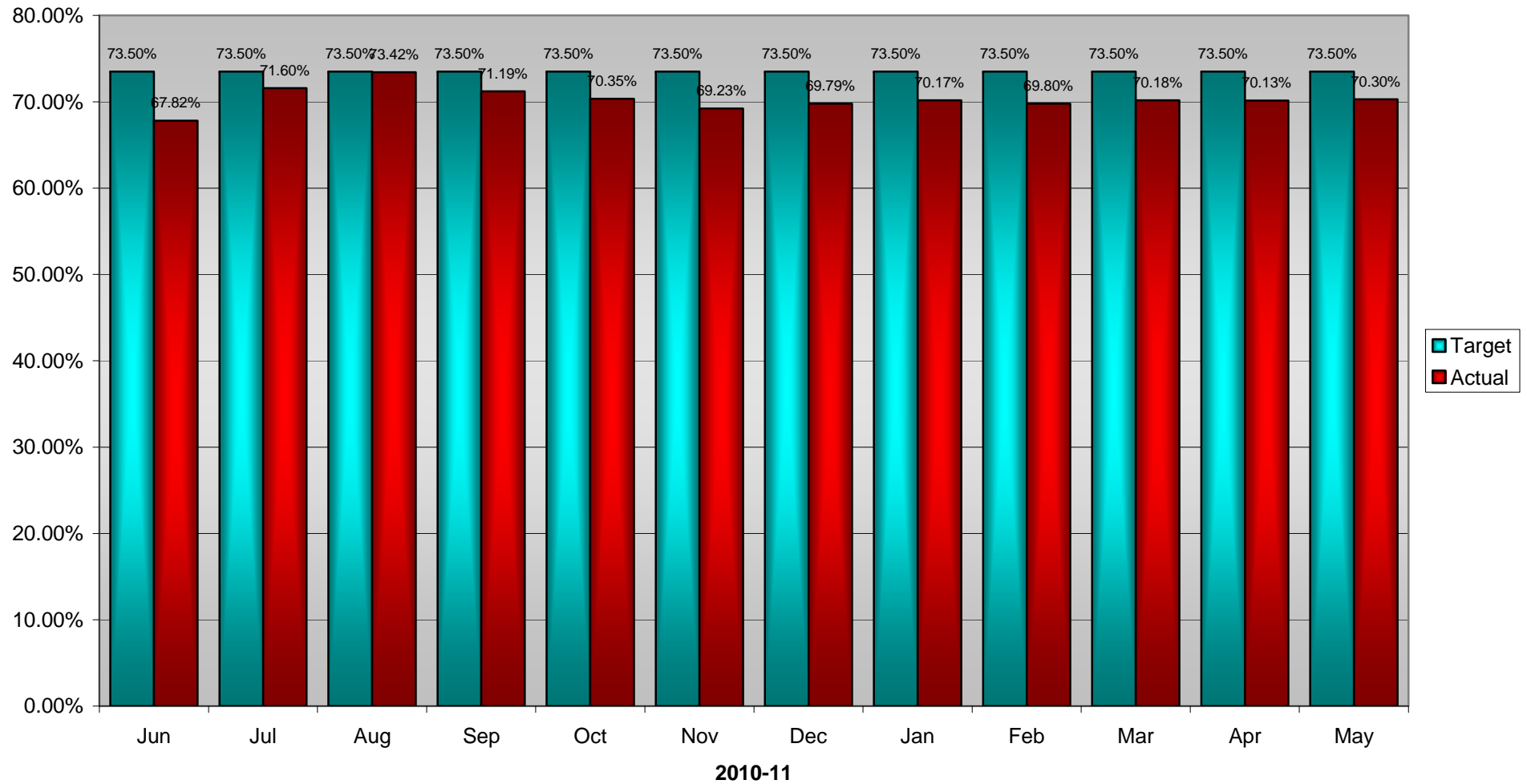
Internal Audit Output Summary – 2010/11 Year-end

| March | | Chief Executives | Children & Young People | Resources | Neighbourhoods | Adults, Health & Housing | External Bodies | Total |
|--|--------------|------------------|-------------------------|-----------|----------------|--------------------------|-----------------|------------|
| | % | | | | | | | |
| Allocated but not yet started | 0%-10% | | | | | | | |
| Started - Fieldwork commenced | 0%-80% | 1 | 6 | 6 | 3 | | 5 | 21 |
| Awaiting Review - Fieldwork complete file submitted for review | 80% | | | 3 | | | | 3 |
| Reviewed but draft report not yet issued | 90% | | | 4 | | 1 | 1 | 6 |
| Draft Report issued but final report not issued | 95% | | 1 | | | | | 1 |
| Final Report issued | 100% | 5 | 7 | 27 | 6 | 7 | 31 | 83 |
| Complete Job finalised but no formal report with recommendations issued | 100% | 2 | 25 | 11 | | | 2 | 40 |
| | Total | 8 | 39 | 51 | 9 | 8 | 39 | 154 |
| Removed from Plan | 0% | | 1 | 1 | | | 3 | 5 |

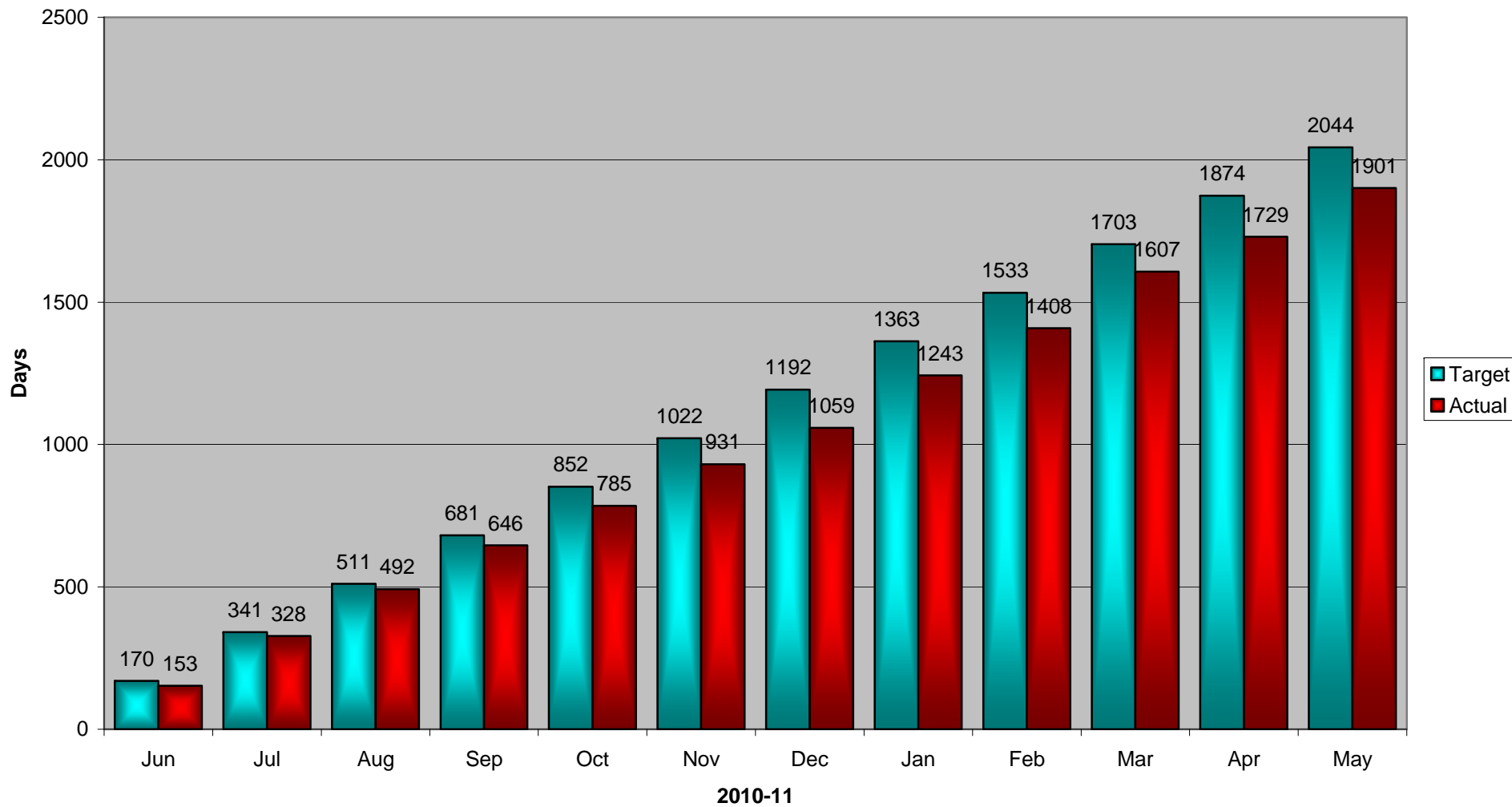
Internal Audit
Service Delivery (% of Audit Plan Completed)



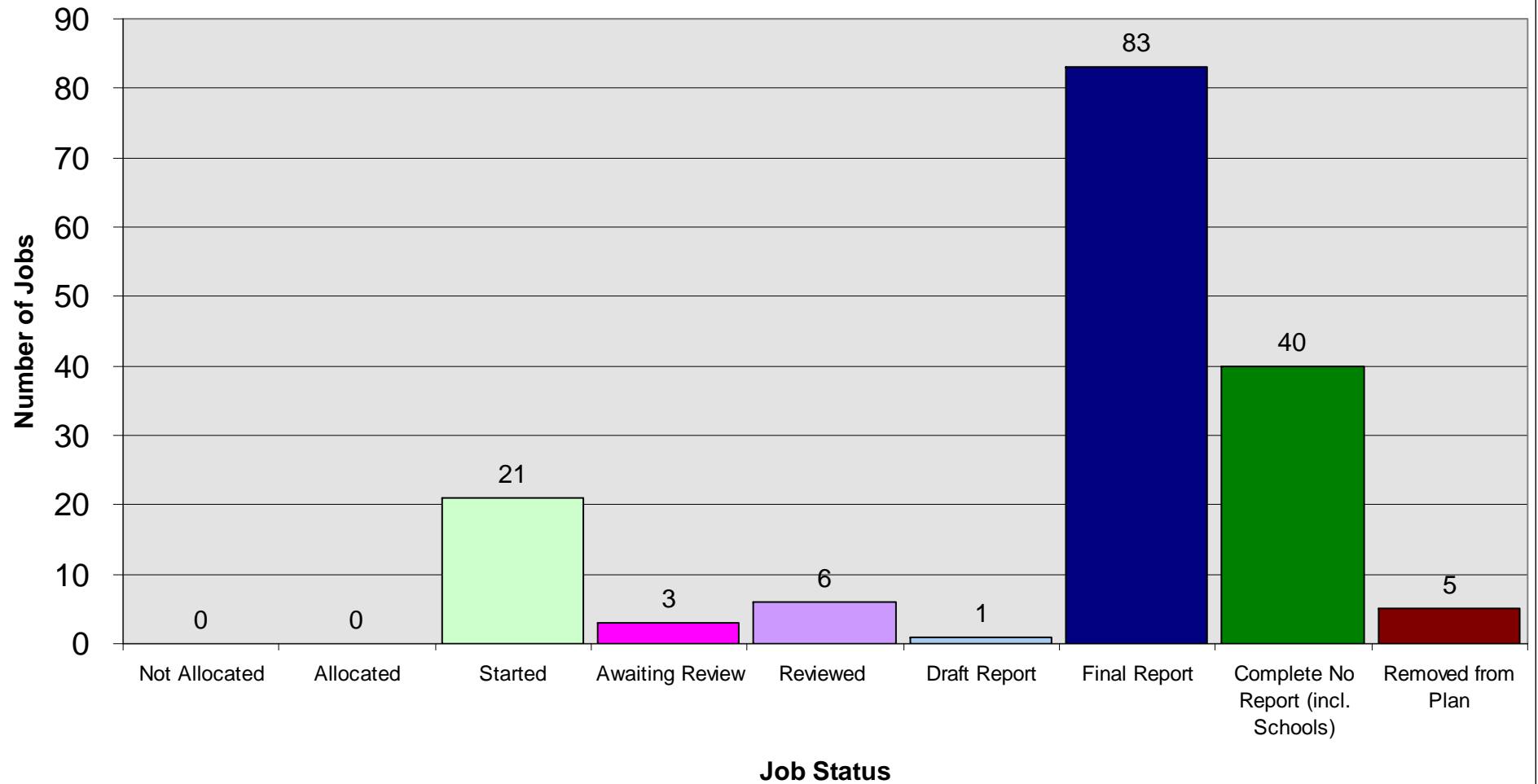
Internal Audit
Productivity (Chargeable Days as % of Days Potentially Available for Audit)



Internal Audit
Productivity (Number of Productive Days Compared to Planned Productive Days)



2010-11 Audit Plan Jobs - 31 May 2011



Internal Audit – Performance Measures

| Ref | Indicator Description | 2008-09 Target | 2008-09 Actual | 2009-10 Target | 2009-10 Actual | 2010-11 Target | 2010-11 Actual | 2011-12 Target |
|-------|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| ARPI3 | Cumulative productivity % for Audit Section | 73.0% | 75.8% | 73.3% | 74.4% | 73.5% | 70.3% | 73.5% |
| ARPI4 | Audit work completed in acceptable timeframe (overall average score out of 5) | 4.0 | 4.4 | 4.0 | 4.3 | 4.2 | 4.2 | 4.3 |
| ARPI5 | Soundness and objectiveness of audit's conclusions on the system under review (overall average score out of 5) | 4.0 | 4.1 | 4.0 | 4.2 | 4.2 | 4.3 | 4.3 |
| ARPI6 | Overall satisfaction with the audit service (overall average score out of 5) | 4.0 | 4.1 | 4.0 | 4.27 | 4.2 | 4.3 | 4.3 |

Results of Customer Satisfaction Surveys

| | | Ave Score |
|---------------------------------------|--|-----------|
| A. AUDIT PLANNING | | |
| 1. | Consultation on audit coverage and timing | 4.00 |
| 2. | Relevance of audit objectives and scope | 4.39 |
| B. COMMUNICATION & CONDUCT | | |
| 3. | Feedback during the audit | 4.18 |
| 4. | Helpfulness of the auditor(s) | 4.53 |
| 5. | Professionalism of the audit team | 4.53 |
| 6. | Completed in an acceptable timeframe | 4.18 |
| C. QUALITY OF THE AUDIT REPORT | | |
| 7. | Clarity and presentation of the report | 4.45 |
| 8. | Accuracy of findings | 4.24 |
| 9. | Soundness and objectiveness of audit's conclusions | 4.26 |
| 10. | Value of agreed actions to improve control environment | 4.16 |
| D. GENERAL | | |
| 11. | Overall satisfaction with the audit service | 4.32 |

Scoring Guide: 1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent