



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
24 JUNE 2010**

ITEM 8

Report of the Head of Audit and
Risk Management

HEAD OF INTERNAL AUDIT – ANNUAL AUDIT OPINION 2009/10

RECOMMENDATION

- 1.1 To note the Head of Audit and Risk Management's opinion on the internal control environment.
- 1.2 To note the activity and performance of Internal Audit.

SUPPORTING INFORMATION

Audit Opinion

- 2.1 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.
- 2.2 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 2009/10. 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.
- 2.3 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 2009/10. However, there were specific areas of concern with regard to the adequacy of internal control in respect of the processes in operation surrounding Markets income. The audit rated the control environment as unsound and this issue was reported to Audit and Accounts Committee at its meeting on 25 March 2010. Committee decided to call in the report to its June 2010 meeting.
- 2.4 No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.

Basis for Opinion

- 2.5 In preparing the overall opinion, the Head of Audit and Risk Management has reviewed all audit activity carried out during 2009/10, which represented a completion rate of 92.5% 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.
- 2.6 The Head of Audit and Risk Management has used the individual control ratings from the audits conducted in 2009/10 and the progress with agreed actions to form the overall opinion.
- 2.7 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.
- 2.8 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. However, the control environment rating for the Cashiers audit was “unsatisfactory”.
- 2.9 A summary of control ratings given by department for 2009/10 is shown in Table 1 below:

Table 1: Audit control rating in Final Reports issued in 2009/10 by Department.

Department	Good	Satisfactory	Marginal	Unsatisfactory	Unsound	No Opinion	Total
Regeneration & Community	9	3	1	2		1	16
Children & Young People	2	2	2	1		1	8
Resources	5	8	7	2		12	34
Environmental Services	1	2	3	1		3	10
Corporate & Adult Services	3	5	1	1	1	2	13
Total	20	20	14	7	1	19	81

Note: This table also does not include the opinion from 21 audits undertaken on behalf of external bodies and the 40 Financial Management Standard in Schools assessments undertaken.

Overall Performance of Internal Audit in 2009/10

- 2.10 Internal Audit completed 92.5% of the planned programme of audit work in 2009/10. The annual target was for 91% completion of the plan. No changes to the audit plan were required to be reported to this Committee. Appendix 2 summarises the output of internal audit for the year and provides graphs to demonstrate performance over the audit year. During the year, 119 audits were finalised. The Audit Section also

finalised a further 21 audits as part of our external contracts with Derby Homes, Derbyshire Fire Authority, Amber Valley BC and the East Midlands Centre of Excellence.

- 2.11 The team delivered a total of 2033 productive days in the year, which was 101 more productive days than was originally planned. In the main, this was due to the team not incurring any vacancies during the year. Over the 2009/10 internal audit year the team achieved a productive rate of 74.35%. The target productive rate for the year was 73.3%.
- 2.12 The increase in number of productive days allowed the Internal Audit team to undertake more audits than originally planned, which included 3 audits for a neighbouring local authority, which generated additional income of £7,080.
- 2.13 At the end of the audit year (31 May 2010), there were 31 audits still in progress to carry forward into the 2010 -11 plan. This is a significant improvement on the 49 jobs which were brought forward into the 2009/10 plan.
- 2.14 During 2009/10 audit year, a total of 337 recommendations were made (this excludes external contracts). This compares to the 184 recommendations made in 2008-9. This is by far the highest number of recommendations that have ever been made in any plan year. The breakdown of recommendations made is shown below:

Category of Recommendation	Number made
Fundamental	0
Significant	170
Merits Attention	167

- 2.15 Unlike the previous 2 years, 2009/10 was not dominated by investigation work. The actual time spent by department and on specific types of audit work is shown in table 2 and table 3 below:

Table 2: Audit Days Spent by Department in 2009/10

Department	Actual Days	%
Regeneration and Community	206.00	10.2
Children and Young People	320.50	15.8
Resources	918.50	45.3
Environmental Services	151.75	7.5
Corporate and Adult Services	231.75	11.4
External Bodies	197.50	9.8
Total	2026.00	100

Table 3: Time spent on key areas of audit work in 2009/10

Audit Area	Actual Days	%
Advice to Clients	88.00	4.3
Investigations	201.25	9.9
Governance	28.50	1.4
Follow-up Work	66.50	3.3
Certification Work	53.50	2.6
Performance Indicator Audits	63.75	3.2
Managed Audits	266.00	13.1
IT Audits	245.75	12.1
Contract/Partnership Audits	56.00	2.8
Systems Audits	265.25	13.1
Probity Audits	323.75	16.0
Schools FMSiS	170.25	8.4
External bodies	197.50	9.8
Total	2026.00	100

- 2.16 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 26 responses received. The average score from the surveys was 47 out of 55. The lowest score received from a survey was 38, while the highest was 55, which was achieved on 4 responses. The overall responses are graded as either good (scores greater than 41 overall), satisfactory (less than 41 but greater than 26) or needs improvement (26 or less). Overall 25 of 26 responses categorised the audit they received as good, while the other response categorised the audit as satisfactory. There were no responses that fell into the “needs improvements” category.
- 2.17 The Snap Survey on perceptions of internal audit which is carried out with Directors and Assistant Directors was not undertaken this year due to the re-structure of the senior management within the Council. Instead, we asked the Head teachers at the schools for their feedback on the Financial Management Standard in Schools (FMSiS) assessments carried out by Internal Audit. The overall assessment was that 31.1% of respondents thought that the service was excellent, 64.5% felt it was good, while 4.4% marked it as fair. The full results are shown in Appendix 4.

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Output Summary and Performance Charts 2009/10 Appendix 3 – Results of Customer Satisfaction Survey Appendix 4 – Results of Schools survey

IMPLICATIONS

Financial

1. None arising directly.

Legal

2. Under the Accounts and Audit Regulations 2003, the Council is required to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

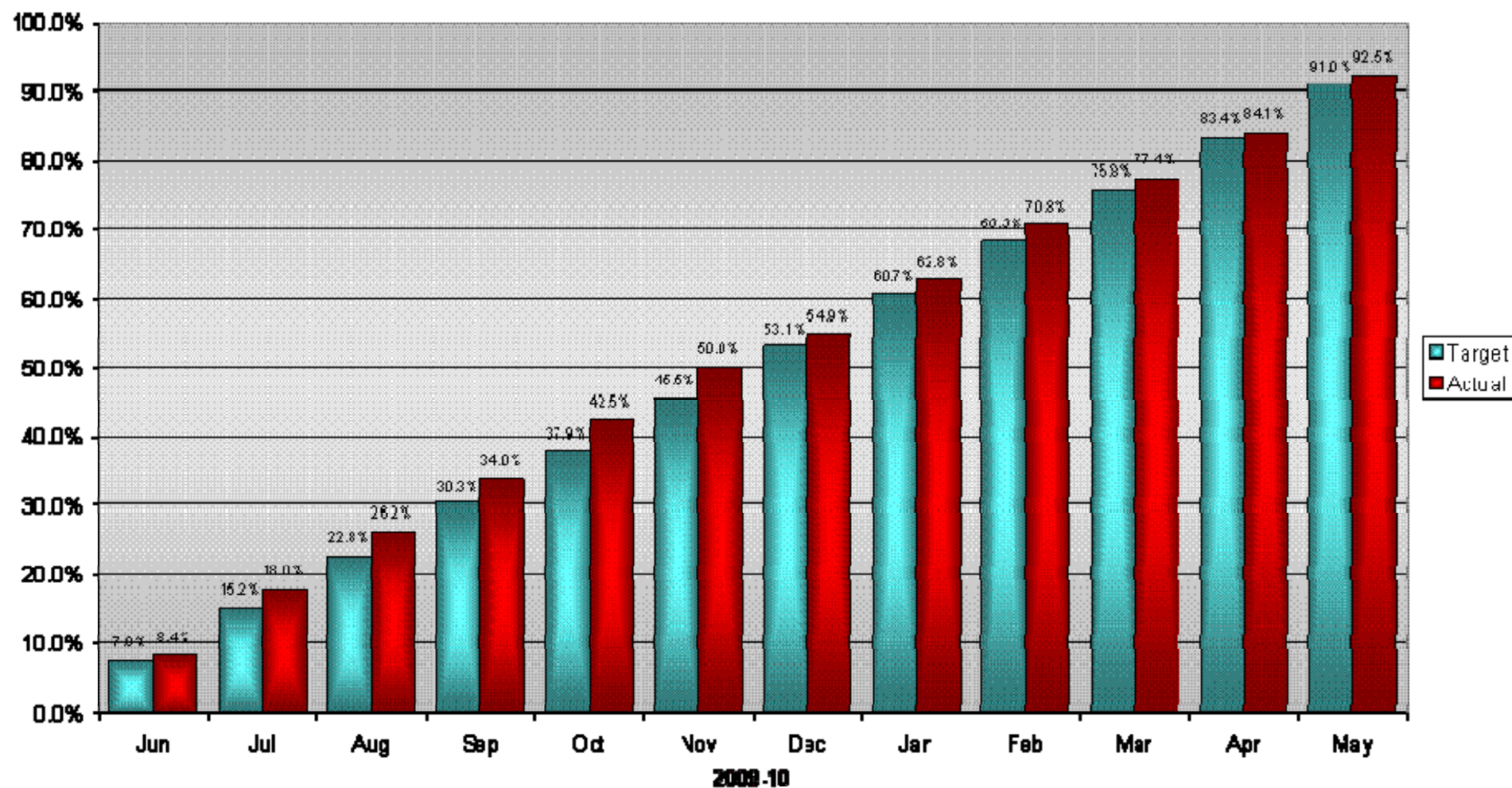
5. Internal Audit contributes through its review work on the major corporate risks to the Council achieving corporate objectives and priorities. This is achieved by the audit of key systems and corporate governance issues and the associated risks. The work of Internal Audit is also relevant to the priority of 'value for money'.

Appendix 2

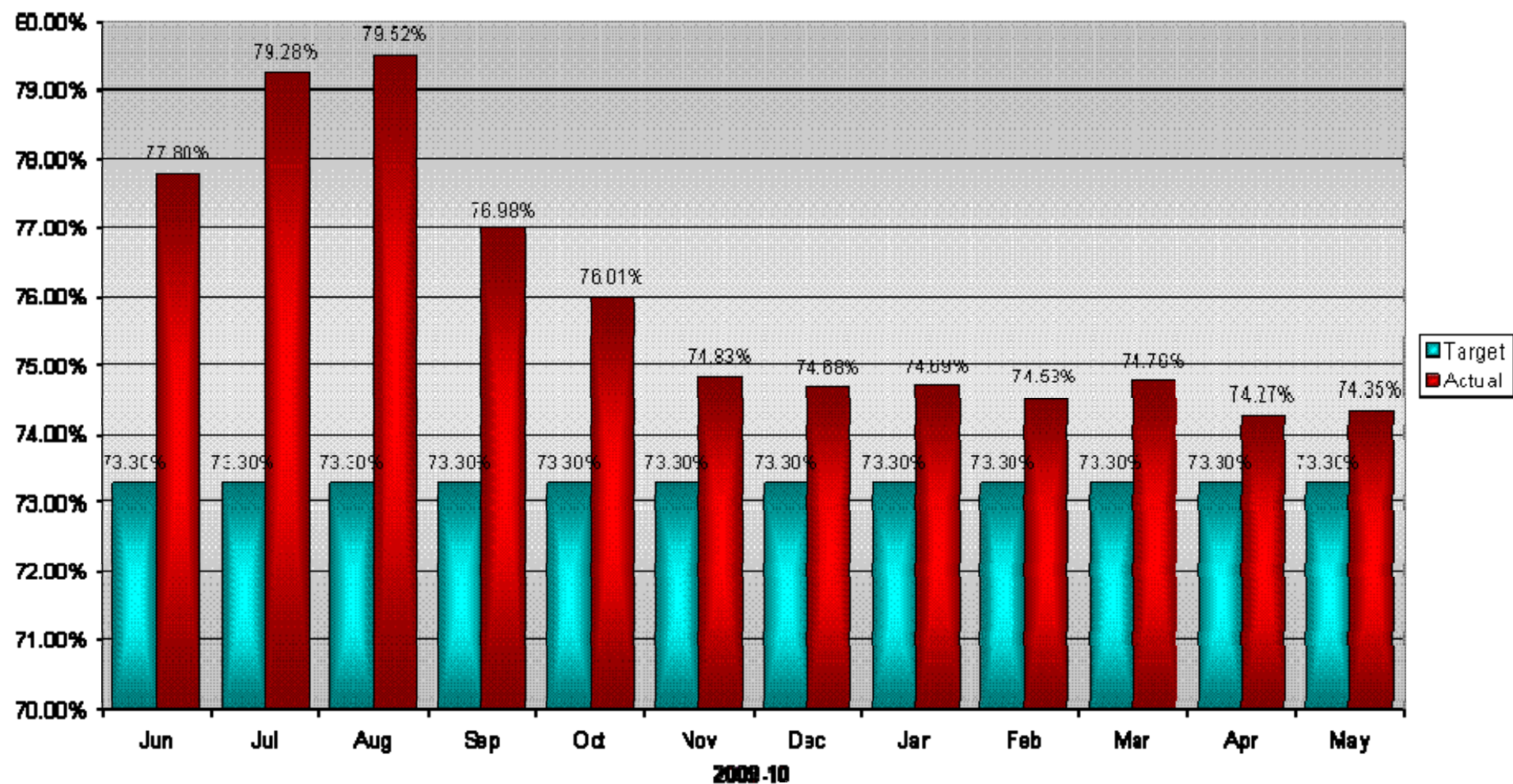
Internal Audit Output Summary – 2009/10 Year-end

March	%	Regeneration & Community	Children & Young People	Resources	Environmental Services	Corporate & Adult Services	External Bodies	Total
Allocated but not yet started	0%-10%							
Started - Fieldwork commenced	0%-80%	2	6	8		1		17
Awaiting Review - Fieldwork complete file submitted for review	80%			2				2
Reviewed but draft report not yet issued	90%			4	1			5
Draft Report issued but final report not issued	95%		1	6				7
Final Report issued	100%	13	5	22	7	10	18	75
Complete Job finalised but no formal report with recommendations issued	100%	2	42	12	3	3	3	65
	Total							171
Removed from Plan	0%				1			1

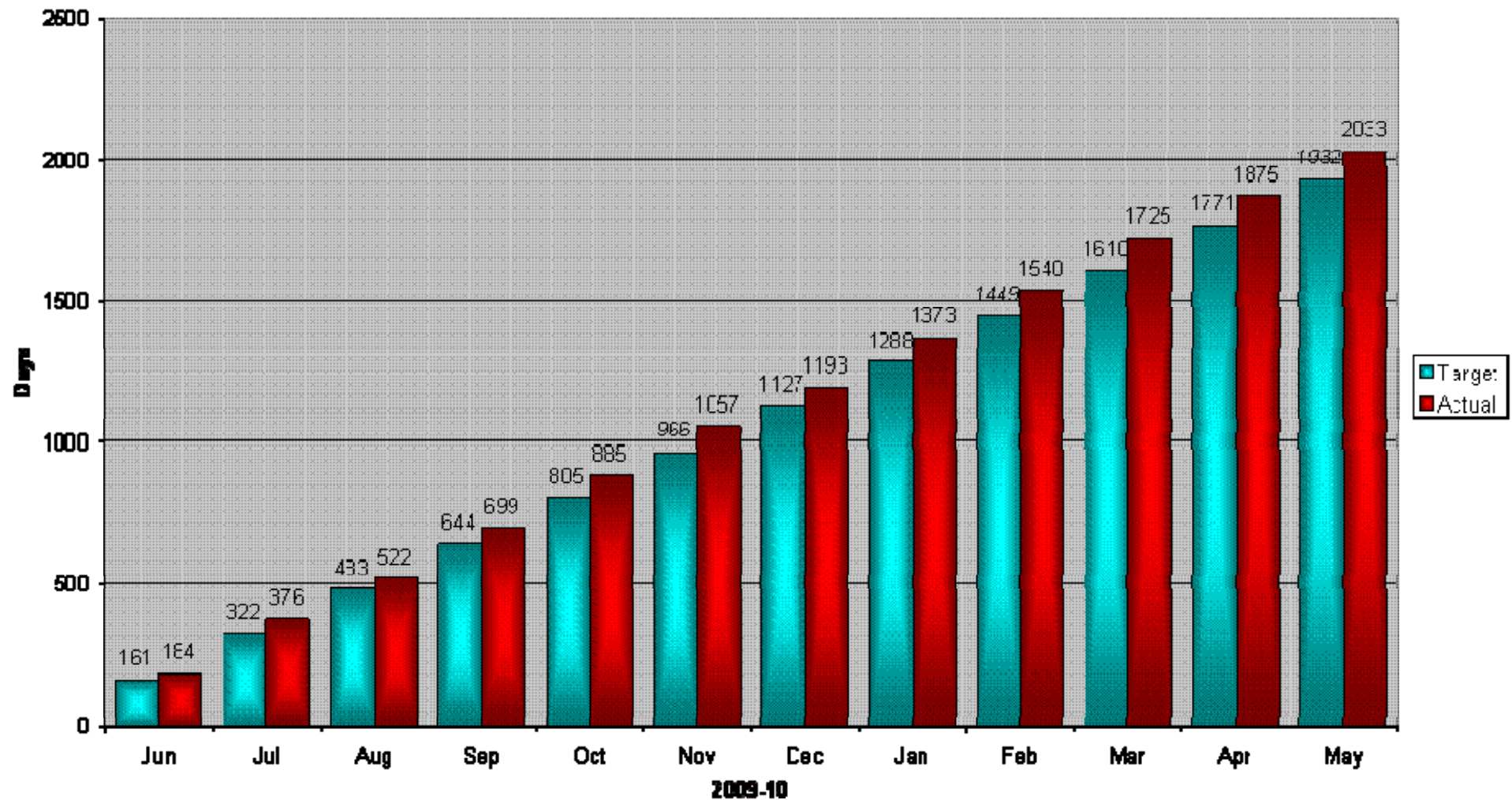
**Internal Audit
Service Delivery (% of Audit Plan Completed)**



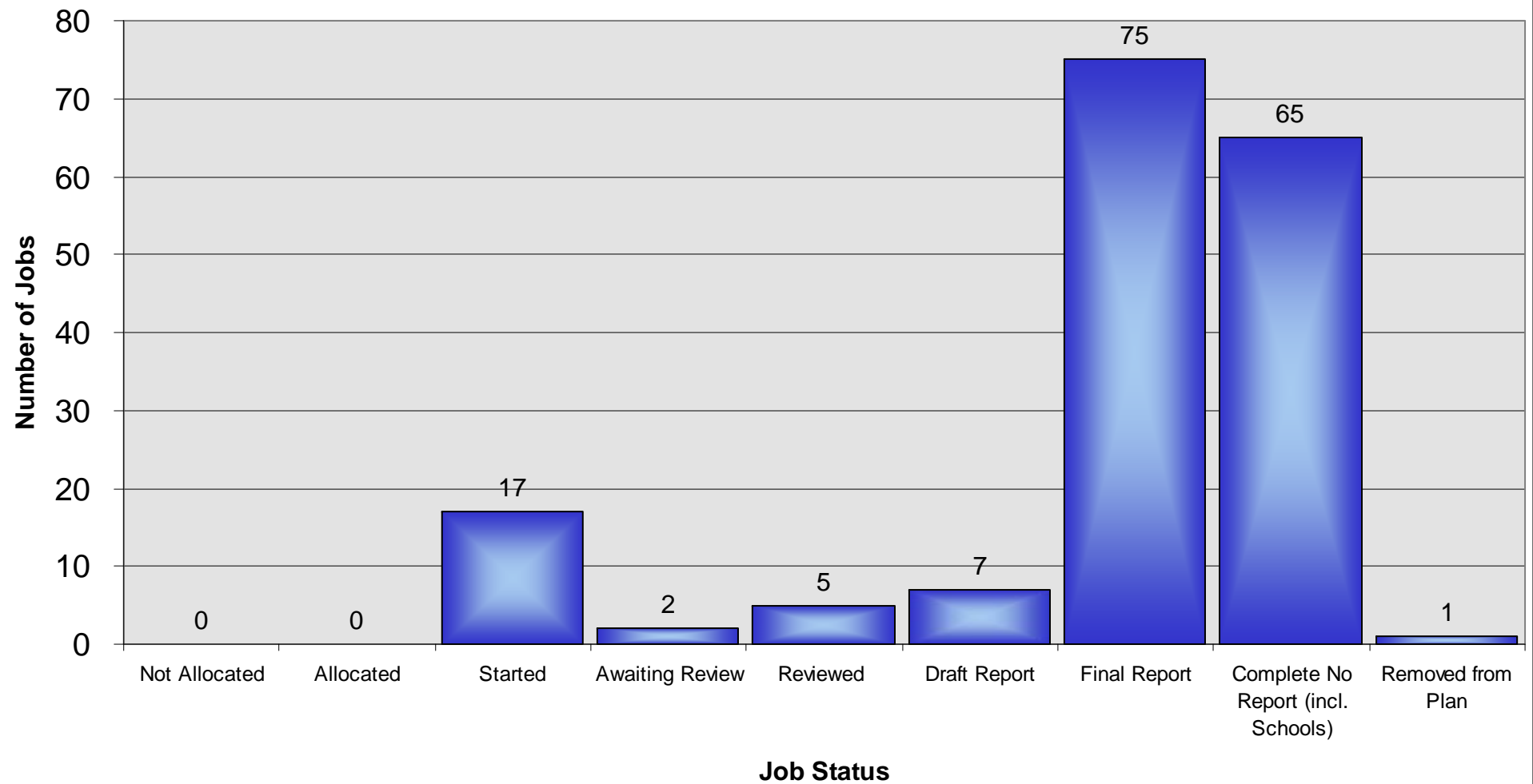
Internal Audit
Productivity (Chargeable Days as % of Days Potentially Available for Audit)



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



2009-10 Audit Plan Jobs - 31 May 2010



Internal Audit – Performance Measures

Ref	Indicator Description	2007-08 Actual	2008-09 Target	2008-09 Actual	2009-10 Target	2009-10 Actual	2010-11 Target	2011-12 Target
ARPI3	Cumulative productivity % for Audit Section	70.6%	73%	75.8%	73.3%	74.35%	73.5%	73.5%
ARPI4	Audit work completed in acceptable timeframe (overall average score out of 5)	N/A	4	4.4	4	4.31	4.2	4.3
ARPI5	Soundness and objectiveness of audit's conclusions on the system under review (overall average score out of 5)	N/A	4	4.1	4	4.15	4.2	4.3
ARPI6	Overall satisfaction with the audit service (overall average score out of 5)	N/A	4	4.1	4	4.27	4.2	4.3

Appendix 3

Results of Customer Satisfaction Surveys

		Ave Score
A. AUDIT PLANNING		
1.	Consultation on audit coverage and timing	4.04
2.	Relevance of audit objectives and scope	4.27
B. COMMUNICATION & CONDUCT		
3.	Feedback during the audit	4.27
4.	Helpfulness of the auditor(s)	4.50
5.	Professionalism of the audit team	4.50
6.	Completed in an acceptable timeframe	4.31
C. QUALITY OF THE AUDIT REPORT		
7.	Clarity and presentation of the report	4.19
8.	Accuracy of findings	4.19
9.	Soundness and objectiveness of audit's conclusions	4.15
10.	Value of agreed actions to improve control environment	4.31
D. GENERAL		
11.	Overall satisfaction with the audit service	4.27

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

Evaluation of Internal Audit's FMSiS Assessments by DCC Schools

