

HEAD OF INTERNAL AUDIT – ANNUAL AUDIT OPINION 2011/12

SUMMARY

- 1.1 This report provides members with the Head of Governance and Assurance'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 2011 to 31 March 2012.

RECOMMENDATIONS

- 2.1 To note the Head of Governance and Assurance'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 10 months to 31 March 2012.

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. My overall audit opinion is based on the work undertaken by internal audit in 2011/12. 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, I have reached the overall opinion **that there is an acceptable level of internal control within the Council's systems and procedures.** There were no critical risk recommendations made within any audit reports issued in 2011/12. However, there were 12 significant risk recommendations.
- 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

In the past the Derby City Council internal audit plan year has been 1 June to 31 May to fit in with the audit and Accounts Committee cycle. However, with the move to the internal audit partnership on 1 January 2012 and to enable a co-ordinated internal audit planning process, a move of the audit plan year to 1 April to 31 March in line with all the other organisations the partnership audits has been introduced. This has meant that the 2011/12 audit year is based on a 10 month period from 1 June 2011 to 31 March 2012.

- 4.5 In preparing the overall opinion, I have reviewed all audit activity carried out during 2011/12 and noted any issues arising from those audits that have carried forward into 2012/13. 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.
- 4.6 I have used the individual assurance ratings from the audits conducted in 2011/12 and the progress with agreed actions to form the overall opinion.
- 4.7 In presenting my opinion, I should identify where reliance has been placed on work by other assurance bodies. My opinion has been based on the work of Internal Audit and my understanding of work carried out by external assurance agencies such as Ofsted.
- 4.8 In respect of the key financial systems of the Council, based on the work undertaken in the year, I am 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 2011/12 is shown in Table 1 below:

Table 1: Audit control assurance rating in Final Reports issued in 2011/12 by Directorate.

Directorate	Comprehensive	Reasonable	Limited	None	No Opinion	Total
Neighbourhoods	3	2	0	0	2	7
Children & Young People	1	1	0	0	1	3
Resources	2	10	4	0	5	21
Chief Executive's Office	0	1	0	0	2	3
Adult Health & Housing	2	2	1	0	1	6
Total	8	16	5	0	11	40

Note: This table also does not include the opinion from 26 audits undertaken on behalf of external bodies and the 35 Schools Financial Value Standard assessments and audits undertaken.

Overall Performance of Internal Audit

- 4.10 Appendix 2 contains performance tables and charts for the internal audit team for the period 1 June 2011 to 31 March 2012. In the period, the team delivered a total of 1706.5 productive days, of which 1215.75 productive days were to Derby City Council. The output in terms of audits is shown in Figure 1 in Appendix 2.
- 4.11 The internal audit team achieved a productive rate of 71.15%. The target productive rate for the year was 73.5% (see Appendix 2).
- The internal audit team achieved a service delivery rate of 82.7%. The target productive rate for the period was 74.9% (see Appendix 2).
- 4.12 Over the period, the average length of time it took to produce, review and issue the draft audit report from completing all the fieldwork with the auditee was 14.2 days.
- 4.13 Internal Audit's income for the 2011/12 financial year from its external contracts was £153,750.
- 4.14 During 2011/12 audit year, a total of 135 recommendations were made on Derby City work. The breakdown of recommendations made is shown below:

Rating of Recommendation	Number made
Low risk	77
Moderate risk	46
Significant risk	12
Critical risk	0

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 2011/12

Directorate	Actual Days	%
Chief Executive's Office	91.25	5.4%
Children and Young People	91.00	5.3%
Resources	693.25	40.6%
Neighbourhoods	147.00	8.6%
Adults, Health & Housing	121.75	7.1%
Schools	71.50	4.2%
External Bodies	490.75	28.8%
Total	1706.50	100.0%

Table 3: Time spent on key areas of audit work in 2011/12

Audit Area	Actual Days	%
Advice to Clients	113.75	6.7%
Investigations	143.75	8.4%
Governance	2.75	0.2%
Follow-up Work	44.50	2.6%
Certification Work	19.25	1.1%
Performance Indicator Audits	19.25	1.1%
Managed Audits	234.50	13.7%
IT Audits	173.75	10.2%
Contract/Partnership Audits	16.25	1.0%
Systems Audits	275.25	16.1%
Probity Audits	72.50	4.2%
Schools FVS	100.25	5.9%
External Bodies	490.75	28.8%
Total	1706.50	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 64 responses received. The average score from the surveys was 49.2 out of 55. The lowest score received from a survey was 36, while the highest was 55, which was achieved on 12 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 42 of 64 responses categorised the audit service they received as excellent, while another 21 response categorised the audit as good. One respondent categorised the service as fair. There were no responses that fell into the poor or very poor categories.

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

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Internal Audit Output Summary 2011/12 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.

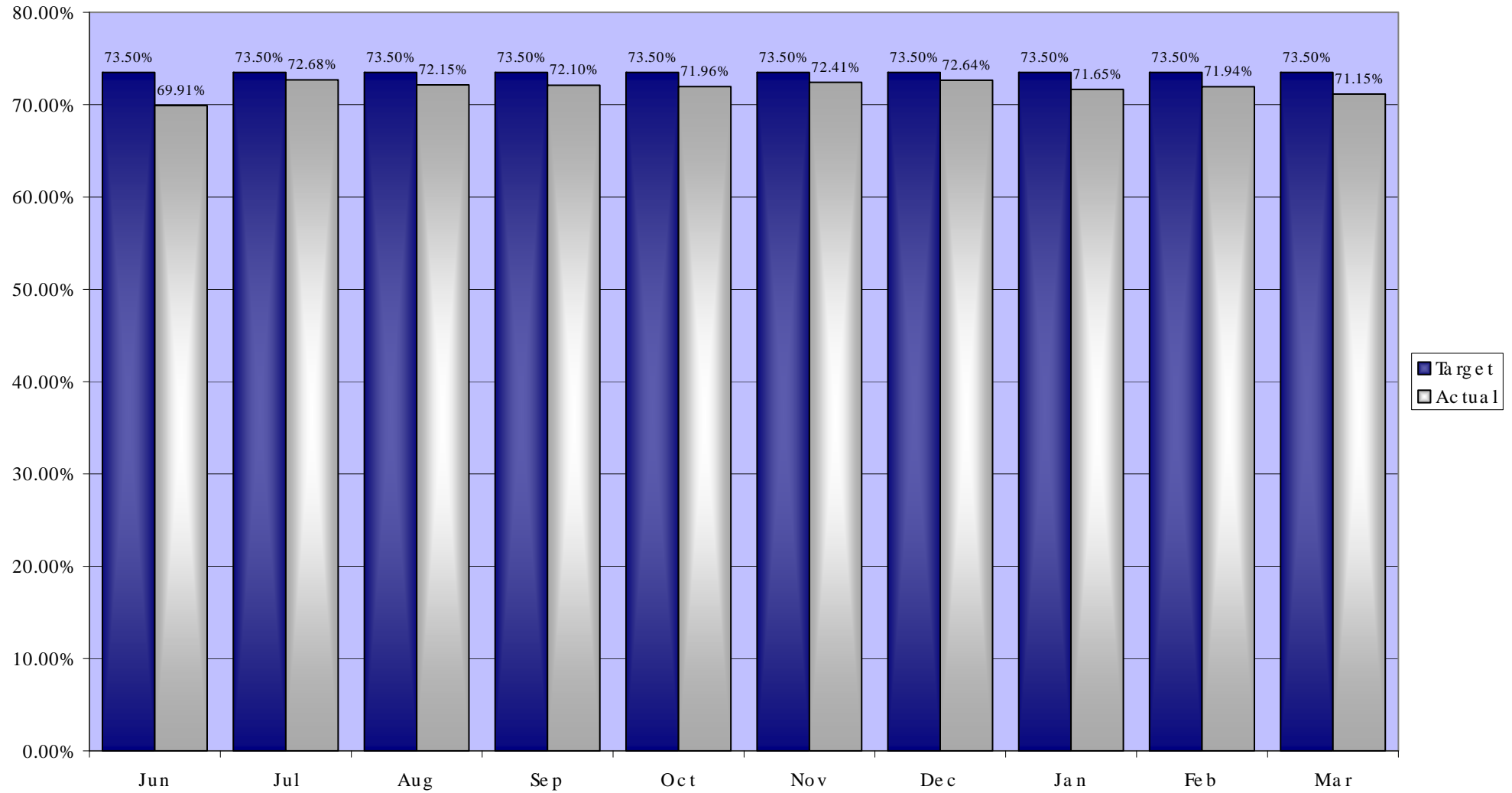
Appendix 2

Figure 1 - Internal Audit Output Summary – 2011/12 Year-end

March		Chief Executives	Children & Young People	Schools	Resources	Neighbour-hoods	Adults, Health & Housing	External Bodies	Total
	%								
Not Allocated						2			2
Allocated but not yet started	0%-10%			3	2	2			7
Started - Fieldwork commenced	0%-80%	1	1	4	8	2		12	28
Awaiting Review - Fieldwork complete file submitted for review	80%		1	1	3			6	11
Reviewed but draft report not yet issued	90%				2				2
Draft Report issued but final report not issued	95%				1	2		3	6
Final Report issued	100%	1	2	27	15	5	5	22	77
Complete Job finalised but no formal report with recommendations issued	100%	2	1	7	6	2	1	2	21
	Total	4	5	42	37	15	6	45	154
Removed from Plan	0%	1	1		5	1	1	9	18

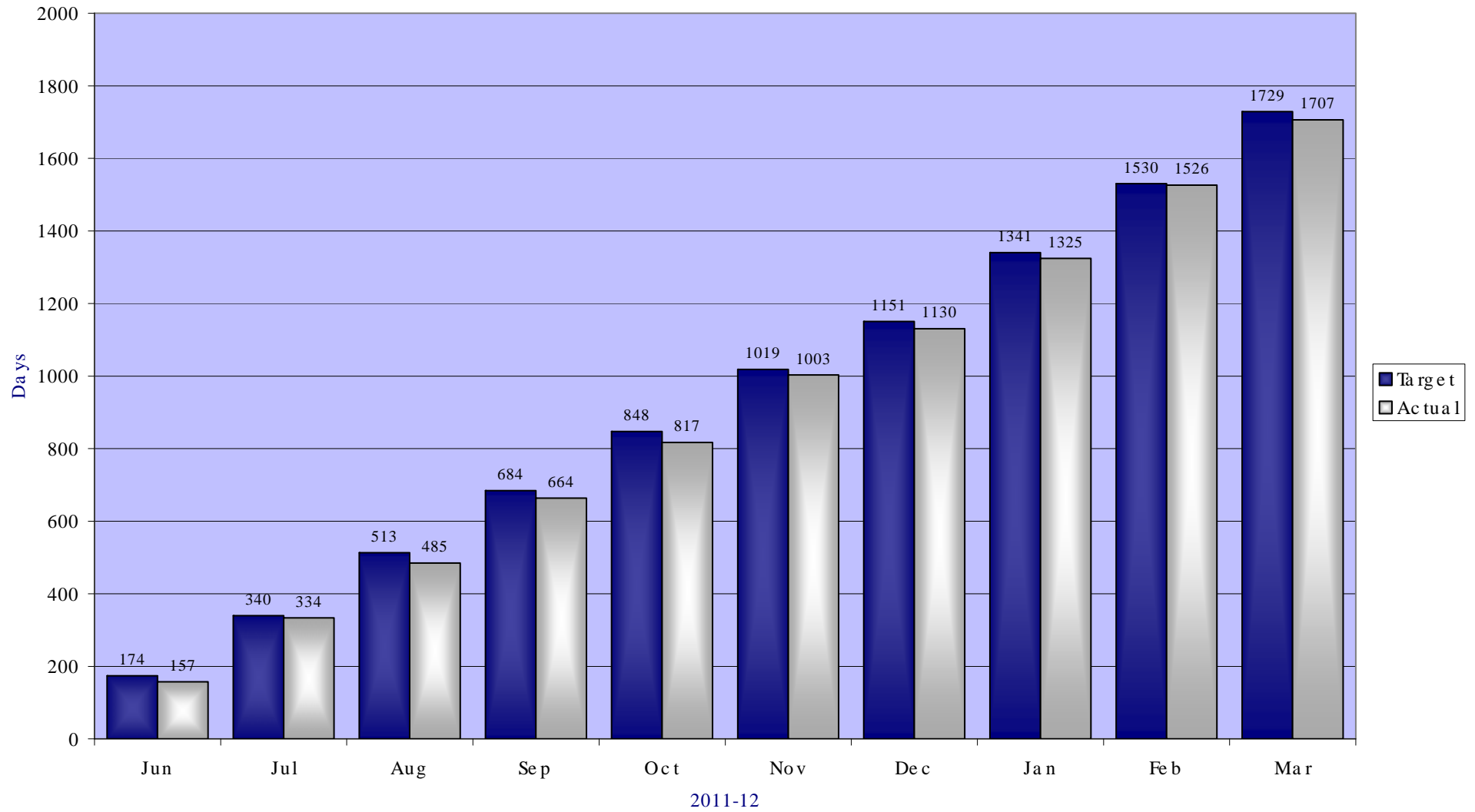
Internal Audit

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

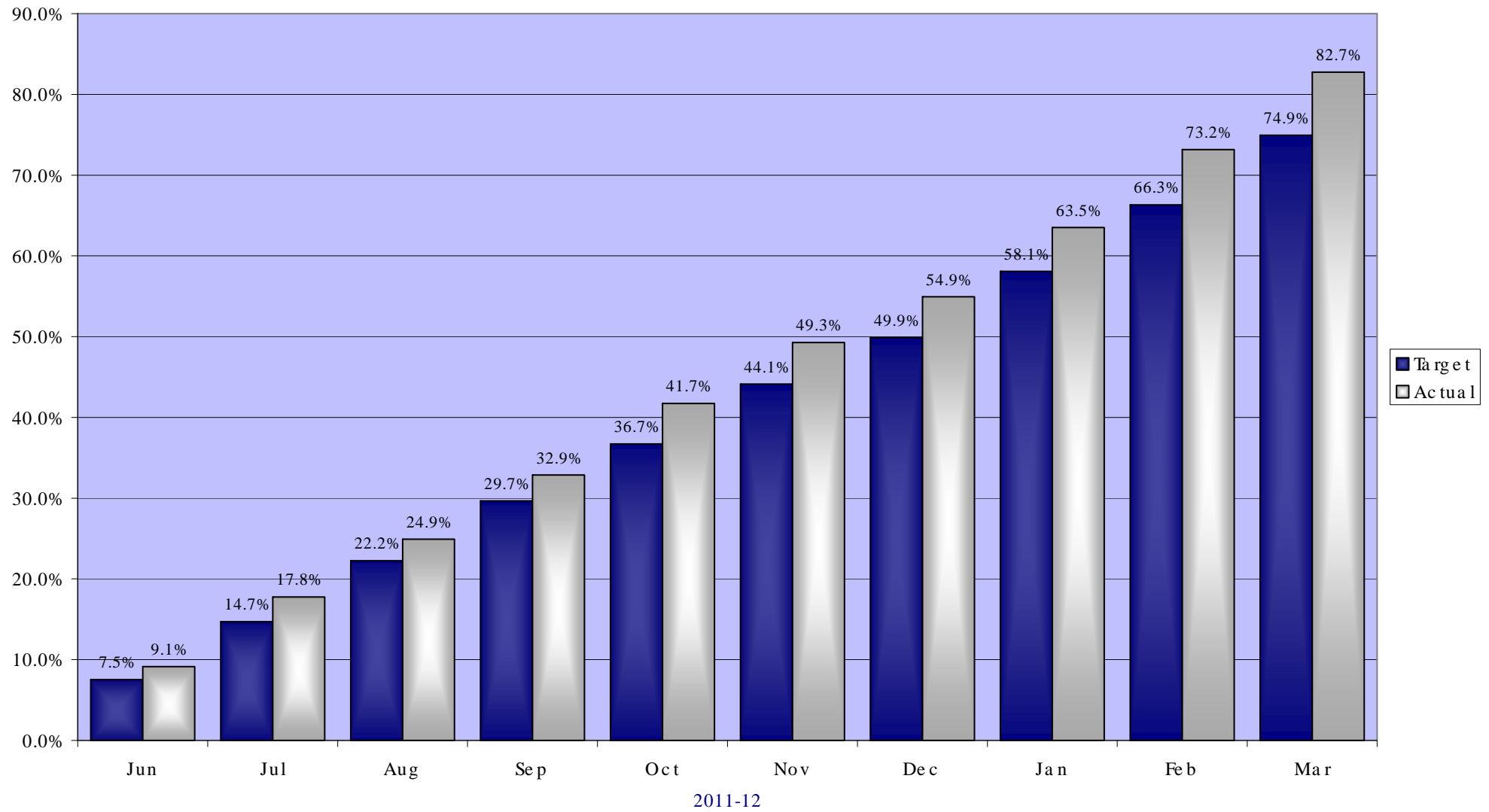


2011-12

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



Internal Audit
Service Delivery (% of Audit Plan Completed)



Results of Customer Satisfaction Surveys

		Ave Score
A. AUDIT PLANNING		
1.	Consultation on audit coverage and timing	4.34
2.	Relevance of audit objectives and scope	4.25
B. COMMUNICATION & CONDUCT		
3.	Feedback during the audit	4.48
4.	Helpfulness of the auditor(s)	4.69
5.	Professionalism of the audit team	4.72
6.	Completed in an acceptable timeframe	4.55
C. QUALITY OF THE AUDIT REPORT		
7.	Clarity and presentation of the report	4.47
8.	Accuracy of findings	4.44
9.	Soundness and objectiveness of audit's conclusions	4.44
10.	Value of agreed actions to improve control environment	4.34
D. GENERAL		
11.	Overall satisfaction with the audit service	4.48

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