



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
25 JUNE 2009**

ITEM 9

Report of the Head of Audit and
Risk Management

HEAD OF INTERNAL AUDIT – ANNUAL AUDIT OPINION 2008/9

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 2008/9. 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. However, there were specific areas of concern with regard to the adequacy of internal control in respect of the payroll cash advance system.** This issue was reported to Audit and Accounts Committee at its meeting on 2 April 2009 and the system has now been stopped.
- 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 2008/9, which represented a completion rate of 91.2% 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 2008/9 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 assurance on the adequacy and effectiveness of the internal controls operating in these systems.
- 2.9 A summary of control ratings given by department for 2008/9 is shown in Table 1 below:

Table 1: Audit control rating in Final Reports issued in 2008/9 by Department.

Department	Good	Satisfactory	Marginal	Unsatisfactory	Unsound	No Opinion	Total
Regeneration & Community	8	3	3			1	15
Children & Young People	46	2	1			1	50
Resources	16	8	4	1		3	32
Environmental Services	2	1	4			3	10
Corporate & Adult Services	6	1	3				10
Total	78	15	15	1		8	117

Note: This table does not include work where no opinion was provided. This type of work that does not generate an audit opinion includes certification work and audits providing advice on controls and systems where no report was written. This table also does not include the opinion from 16 audits undertaken on behalf of external bodies.

Overall Performance of Internal Audit in 2008/9

- 2.10 Internal Audit completed 91.2% of the planned programme of audit work in 2008/9. The annual target was for 91% completion of the plan. Changes to the audit plan were reported to this Committee through out the year for approval. Appendix 2 summarises the output of internal audit for the year. During the year, 117 audits were finalised. The Audit Section also finalised a further 16 audits as part of our

external contracts with Derby Homes, Derbyshire Fire Authority and the East Midlands Centre of Excellence.

- 2.11 As with the previous year, 2008/9 was dominated by significant 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 2008/9

Department	Actual Days
Regeneration and Community	154.00
Children and Young People	333.25
Resources	712.50
Environmental Services	453.50
Corporate and Adult Services	98.50
Total	1,751.75

Table 3: Time spent on key areas of audit work in 2008/9

Audit Area	Actual Days
Advice to Clients	58.25
Investigations	493.00
Follow-up Work	8.50
Certification Work	25.00
Performance Indicator Audits	69.75
Managed Audits	49.75
IT Audits	255.00
Contract/Partnership Audits	167.00
Systems Audits	70.25
Probity Audits	209.75
Schools FMSiS	133.50
Total	1,751.75

- 2.12 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 responses received. The average score from the surveys was 45.9 out of 55. The lowest score received from a survey was 32, while the highest was 55, which was achieved on 3 audits. 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 84% of responses categorised the audit they received as good, while 16% categorised the audit as satisfactory. There were no responses that fell into the “needs improvements” category.

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Output Summary 2008/9 Appendix 3 – Results of Customer Satisfaction 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 – 2008/9 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%	1	8	10	5	1	2	27
Awaiting Review - Fieldwork complete file submitted for review	80%		1					1
Reviewed but draft report not yet issued	90%	1		2	2	1	2	8
Draft Report issued but final report not issued	95%		15	3			2	20
Final Report issued	100%	8	47	22	4	5	15	101
Complete Job finalised but no formal report with recommendations issued	100%	7	3	10	6	5	1	32
	Total	17	74	47	17	12	22	189
Removed from Plan	0%	1	4	1		1	1	8

Appendix 3

Results of Customer Satisfaction Surveys

A.	AUDIT PLANNING	Ave Score
1.	Consultation on audit coverage and timing	3.7
2.	Relevance of audit objectives and scope	4.2
B.	COMMUNICATION & CONDUCT	
3.	Feedback during the audit	3.9
4.	Helpfulness of the auditor(s)	4.4
5.	Professionalism of the audit team	4.3
6.	Completed in an acceptable timeframe	4.4
C.	QUALITY OF THE AUDIT REPORT	
7.	Clarity and presentation of the report	4.4
8.	Accuracy of findings	4.1
9.	Soundness and objectiveness of audit's conclusions	4.1
10.	Value of agreed actions to improve control environment	4.3
D.	GENERAL	
11.	Overall satisfaction with the audit service	4.1

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