



DERBY CITY COUNCIL

AUDIT AND ACCOUNTS
COMMITTEE
28 JUNE 2007

ITEM XX

Report of the Head of Audit and
Risk Management

HEAD OF INTERNAL AUDIT – ANNUAL AUDIT OPINION 2006/7

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 Statement on Internal Control (SIC), which is also being presented to this committee for challenge 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 2006/7. 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**. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.

Basis for Opinion

- 2.4 In preparing the overall opinion, the Head of Audit and Risk Management has reviewed all audit activity carried out during 2006/7, which represented a completion rate of 89% 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.

- 2.5 The Head of Audit and Risk Management has used the individual control ratings from the audits conducted in 2006/7 and the progress with agreed actions to form the overall opinion.
- 2.6 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 solely on the work of Internal Audit, although the Head of Audit and Risk Management has gathered external assurances for the purpose of compiling the SIC.

Key Financial Systems

- 2.7 In the light of work undertaken in the year, the Head of Audit and Risk Management is only able to give limited assurance on the adequacy and effectiveness of the organisation’s internal controls in respect of the Council’s main financial systems due to the weaknesses exposed by the investigation into the Council’s Debt Recovery Manager. Although the individual review of debtors issued early in 2006/7 gave a rating of “good” relative to the scope of the audit, the Head of Audit and Risk Management has deemed this area to be “unsound” following his review of the findings from the internal audit investigation work.

Other Areas of Council Activity

- 2.4 In other areas of Council activity, one Internal Audit review undertaken in 2006/7 gave a rating of unsatisfactory and one review gave a rating of unsound. The Audit and Accounts Committee has requested that both these reviews be “called in” for scrutiny.
- 2.5 The individual control ratings for each audit undertaken are shown in Appendix 2. A summary of ratings given by department for 2006/2007 is shown in Table 1 below:

Table 1: Audit control rating in Final Reports issued in 2006/7 by Department.

| Department | Good | Satis- factory | Marginal | Unsatis- factory | Unsound | Total |
|-----------------------------------|------|-------------------|----------|---------------------|---------|-------|
| Regeneration & Community | 4 | | 1 | 1 | | 6 |
| Children & Young People | 14 | 12 | 2 | | | 28 |
| Resources & Housing | 5 | 3 | | | | 8 |
| Environmental Services | | 2 | 1 | | | 3 |
| Corporate & Adult Social Services | 1 | | 1 | | 1 | 3 |
| Total | 24 | 17 | 5 | 1 | 1 | 48 |

Note: This table does not include work where no opinion was provided. This type of work that does not generate an audit opinion includes all investigation and certification work and audits providing

advice on controls and systems where no report was written. This table also does not include any audits undertaken on behalf of external bodies.

Overall Performance of Internal Audit in 2006/7

- 2.6 Internal Audit completed 89% of the planned programme of audit work in 2006/7. The annual target was for 90% completion of the plan. Appendix 3 contains a summary of the end of year position in terms of progress on audit reviews. Appendix 4 gives fuller details those audit reviews that were still in progress at 31 March 2007. Changes to the audit plan were reported to this Committee through out the year for approval.
- 2.7 The second half of the year was dominated by significant investigation work in Resources (Debt Recovery) and in Environmental Services. The Financial Management Standard in Schools external assessments of secondary schools was carried out in the 4th Quarter (Jan 2007 – March 2007). The actual time spent by department on specific types of audit work is shown in table 2 below:

Table 2: Audit Days Spent by Department in 2006/7

| Dept | Systems Work | Schools | Investigations | Advice / Emerging Issues | Follow-ups | TOTAL |
|-------------------------------------|---------------|---------------|----------------|--------------------------|--------------|----------------|
| Regeneration and Community | 102.50 | | 54.50 | 2.25 | 2.25 | 161.50 |
| Children and Young People's | 68.50 | 367.50 | 61.50 | 71.00 | 4.50 | 573.00 |
| Resources and Housing | 375.50 | | 150.00 | 18.25 | 5.75 | 549.50 |
| Environmental Services | 90.50 | | 128.50 | 1.25 | 0.75 | 221.00 |
| Corporate and Adult Social Services | 126.50 | | 8.25 | 17.75 | 0.75 | 153.25 |
| External Bodies | 124.50 | | 39.75 | 10.25 | | 174.50 |
| | 888.00 | 367.50 | 442.50 | 120.75 | 14.00 | 1832.75 |

- 2.8 Feedback from departments on the internal audit service they received in 2006/7 is shown in Appendix 5. The main area for concern is the prompt issue of the audit report. This problem has been recognised by the Section and action is being taken to address this for 2007/8. Overall the feedback from departments has been good.

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|--------------------------------------|---|
| For more information contact: | Richard Boneham, Head of Audit and Risk Management, 01332 255688 richard.boneham@derby.gov.uk |
| Background papers: | None |
| List of appendices: | Appendix 1 - Implications Appendix 2 – Summary of completed audit work 2006/7 Appendix 3 – Summary of year end progress of audit work Appendix 4 – Summary of work in progress at 31 March 2007 Appendix 5 – Feedback from QCQs in 2006/7 |

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| IMPLICATIONS |
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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 priorities

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'.

Summary of Completed Audit Work 2006/7

| Job Name | Overall control rating |
|--|------------------------|
| Regeneration and Community | |
| BVPI 82a, 82b & 84 2005/6 – Household Waste, recycling etc | Good |
| External Funding Unit - Systems | Good |
| Capital Programme | Good |
| Assembly Rooms – Streamlining of processes | N/A |
| Derby Advertising Video and Information Screen (DAVIS) Project | Unsatisfactory |
| Client Monitoring: Horticultural Maintenance | Marginal |
| Building Control | Good |
| Certification Work: | |
| TownNet Final Claim | N/A |
| Children and Young People | |
| Schools: | |
| Beaufort Community Primary | Good |
| Bemrose Community School | Good |
| Littleover Community School | Satisfactory |
| Sinfon Community School | Satisfactory |
| St. Benedict Catholic School and Performing Arts College | Good |
| Chellaston Foundation School and Technology College | Good |
| Merrill College | Satisfactory |
| Noel Baker Community School and Language College | Good |
| West Park Community School | Satisfactory |
| Woodlands Community School | Satisfactory |
| Derby Moor Community Sports College | Satisfactory |
| Reigate Primary School | Good |
| Arboretum Primary School | Marginal |
| Brackensdale Infant School | Good |
| Investigation – Cavendish Close Junior School | Marginal |
| St Peters CE (Aided) Junior School | Good |
| Redwood Junior School | Good |
| da Vinci Community College | Satisfactory |
| Merrill College | Satisfactory |
| Markeaton Primary School | Good |
| Alvaston Community Junior School | Satisfactory |
| Ashgate Primary School | Good |
| Griffe Field Primary School | Good |
| St Georges Catholic Primary School | Satisfactory |
| Chellaston Junior School | Good |
| Brackensdale Junior School | Satisfactory |
| Non school audit work: | |

| Job Name | Overall control rating |
|---|------------------------|
| Investigation: Bute Walk Petty Cash | N/A |
| Osmaston/Allenton Surestart – Establishment visit | Satisfactory |
| Investigation – Travel Claims | N/A |
| Adoption and Fostering Payments | Good |
| Other work: | |
| Training on FMSiS provided to Clerks to Governors | N/A |
| Training on FMSiS provided to School Administrators | N/A |
| Training on FMSiS provided to School Governors | N/A |
| FMSiS Secondary School Assessments 2006/7 | N/A |
| Resources | |
| Accounting Systems: Journals & Virements | Satisfactory |
| Creditors - Advice | N/A |
| Financial Services – Control Accounts | Good |
| Debtors | Good |
| IT Security Policy – Follow Up | N/A |
| Cashiers: Collections and Deposits | Satisfactory |
| Investigation – Payroll: Missing Cash | N/A |
| IT Procurements | N/A |
| Main Accounting System | Good |
| Council Tax – Billing & Write-offs | Satisfactory |
| NNDR – Billing & Refunds | Good |
| New Revenues & Benefits System Project | N/A |
| New FMS Project Assurance | N/A |
| HB & Council Tax Benefit – Post Opening Procedures | Good |
| Certification work: | |
| LPSA 1 Pump Priming Certification | N/A |
| TR17 Teachers Pensions Return 2005-6 | N/A |
| TR17 Teachers Pensions Return 2006-7 – Initial work | N/A |
| LPSA 1 PRG Claim 2002-03 to 2004-05 Certification | N/A |
| LAA – Audit Certification 2005-6 | N/A |
| Governance work: | |
| Anti-Fraud & Corruption Strategy | N/A |
| Confidential Reporting Code | N/A |
| Anti-Money Laundering Policy | N/A |
| Risk Management Strategy | N/A |
| National Fraud Initiative 2006 | N/A |
| Environmental Services | |
| Springwood Sports Centre - Security | Satisfactory |
| Sinfin/Allestree Golf Courses – Cash-ups | N/A |

| Job Name | Overall control rating |
|--|------------------------|
| Moorways Sports Centre: Security | Marginal |
| Investigation – Crematorium | N/A |
| Investigation – Inappropriate Images on Network | N/A |
| BV218a & b Abandoned Vehicles | Satisfactory |
| | |
| Corporate and Adult Social Services | |
| Markets Car Park Income | Unsound |
| Allenton Market | Satisfactory |
| Asian Over 60's – Financial Problems | N/A |
| HR/Payroll | N/A |
| Employment Agency Contract (Comensura) | N/A |
| The Knoll Hostel | Good |
| Asian Over 60's – Monthly Expenditure verification | N/A |
| Investigation – Personal Allowance | N/A |
| Assessment & Care Management – Admission into care | N/A |

Summary of year end progress of audit work

| 2006-07 | | % | Regeneration & Community | Children & Young People | Resources | Environmental Services | Corporate & Adult Social Services | External Bodies | Total | CPA % |
|---------|--|--------|--------------------------------|-------------------------------|-----------|---------------------------|---|--------------------|------------|--------------|
| NA = | Not Allocated | | | | | | | | | |
| A = | Allocated but not yet started | 0%-10% | | | | | | | | |
| S = | Started - Fieldwork commenced | 0%-80% | 1 | 5 | 5 | 2 | | 1 | 14 | |
| AR = | Awaiting Review - Fieldwork complete file submitted for review | 80% | 6 | 9 | 7 | 3 | 3 | 1 | 29 | |
| R = | Reviewed but draft report not yet issued | 90% | | | 1 | | | 5 | 6 | |
| DR = | Draft Report issued but final report not issued | 95% | 1 | 3 | 1 | | | | 5 | |
| FR = | Final Report issued | 100% | 8 | 28 | 17 | 4 | 6 | 11 | 74 | |
| C = | Complete Job finalised but no formal report with recommendations issued | 100% | | 6 | 10 | 2 | 2 | 2 | 22 | |
| | Total | | 16 | 51 | 41 | 11 | 11 | 20 | 150 | 89.0% |
| X = | Removed from Plan | 0% | 4 | 14 | 8 | 4 | 4 | 3 | 37 | |

Summary of Work in Progress at 31 March 2007

| Job Name | Status of Audit |
|--|---------------------|
| Regeneration and Community | |
| Contract Partnership - IRRIMS | Awaiting Review |
| Parking Enforcement - Income | Awaiting Review |
| BV 170a, b and c – Visits to Museums | Awaiting Review |
| BV 199 a, b and c – Street & Environmental Cleanliness | Awaiting Review |
| BV 223, BV 224 a and b – Condition of Principal & Unclassified Roads | Awaiting Review |
| RTI - Chellaston | Draft Report |
| Derby & Derbyshire Economic Partnership (DDEP) | Awaiting Review |
| Streetcare – Missing Cash | Fieldwork Commenced |
| Children and Young People | |
| Schools: | |
| Allenton Community Primary | Fieldwork Commenced |
| Chellaston Infant School | Draft Report |
| Lawn Primary School | Awaiting Review |
| Ivy House Special School | Fieldwork Commenced |
| St Andrews Special School | Draft Report |
| St Clares Special School | Awaiting Review |
| St Martins Special School | Fieldwork Commenced |
| Pear Tree Community Junior School | Awaiting Review |
| Lakeside Community Primary School | Awaiting Review |
| Investigation – Hardwick Primary School | Awaiting Review |
| St Giles Special School | Draft Report |
| Non school audit work: | |
| Child protection – Bichard Inquiry | Fieldwork Commenced |
| Pupil Referral Unit | Awaiting Review |
| Bute Walk - Establishment Visit | Awaiting Review |
| Austin/Sunnyhill Sure Start Establishment Visit | Fieldwork Commenced |
| Early Years | Awaiting Review |
| Student Awards | Awaiting Review |
| Resources | |
| e-Procurement | Fieldwork Commenced |
| Bailiffs Service | Awaiting Review |
| Scheme of Delegation | Awaiting Review |
| Employment Status – Tax & NICS | Fieldwork Commenced |
| LAA – Systems Work | Fieldwork Commenced |
| Wireless network | Awaiting Review |
| Payroll | Awaiting Review |

| Job Name | Status of Audit |
|---|---|
| Debtors – Credit Notes Investigation – Debt Recovery BV 183a & BV203 (B&B) , BV213 & LPSA Target 10 (Homelessness) Revenues – Income Interfaces Supporting People – Sources of Evidence Housing & Council Tax Benefit – Fraud Prevention & Detection LPSA Target 11 – Improving Opportunities | Draft Report Fieldwork Commenced Fieldwork Commenced Awaiting Review Awaiting Review Reviewed Awaiting Review |
| Environmental Services | |
| Sinfin/Allestree Golf Courses - Income Environmental Services - Creditors Catering Supplies Contracts Payment of Utility Bills Investigation - Buildings | Fieldwork Commenced Awaiting Review Awaiting Review Awaiting Review Fieldwork Commenced |
| Corporate and Adult Social Services | |
| Members Allowances Property Services – Fixed Asset Register Contract Procedure Rules | Awaiting Review Awaiting Review Awaiting Review |

Internal Audit – Feedback from all Quality Control Questionnaires for 2006-7

| Ref No. | Scores | | 2006/07 Overall Average |
|---|--|--|-------------------------------|
| | 5=Very Good, 4=Good, 3=Satisfactory | | |
| | 2=Needs Improvement 1=Unsatisfactory | | |
| Quality Control Questions for Line Managers - Number of Responses Received | | | 26 |
| QCQ1 | That sufficient notice was given to arrange the visit? | | 4.1 |
| QCQ2 | The level of consultation on the scope and objectives of the audit? | | 3.8 |
| QCQ3 | The Auditor's understanding of your systems and operational issues? | | 3.7 |
| QCQ4 | The audit was carried out efficiently with minimum disruption? | | 4.0 |
| QCQ5 | The level of consultation during the audit? | | 4.1 |
| QCQ6 | The audit was carried out professionally and objectively? | | 4.2 |
| QCQ7 | The draft report and/or exit interview addressed the key issues and was soundly based? | | 4.0 |
| QCQ8 | Your opportunity to comment on the findings made? | | 4.5 |
| QCQ9 | The final report in terms of clarity and content? | | 4.2 |
| QCQ10 | The prompt issue of the draft report? | | 3.2 |
| QCQ11 | The recommendations in the final report will improve control and/or performance? | | 4.0 |
| QCQ12 | The audit was constructive and added value overall? | | 4.0 |
| TOTAL | | | 47.9 |
| Quality Control Questions for Directors - Number of Responses Received | | | 21 |
| DR1 | The overall focus and scope of the audit was appropriate, given the topic under review. | | 4.5 |
| DR2 | The Findings adequately identify the weaknesses in control or the absence of control and the risks associated with them. | | 4.5 |
| DR3 | The Recommendations are appropriate and practical. | | 4.0 |
| DR4 | The Ratings given to Recommendations are appropriate. | | 4.5 |
| DR5 | I am satisfied that the managers' responses and the stated approach to implementation are appropriate. | | 4.0 |
| DR6 | The Executive Summary and Conclusion provide a balanced view of the overall audit findings and the state of control. | | 4.5 |
| DR7 | The audit was constructive and added value overall. | | 4.5 |
| TOTAL | | | 30.5 |