



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
26 JUNE 2008**

ITEM 14

Report of the Head of Audit and
Risk Management

HEAD OF INTERNAL AUDIT – ANNUAL AUDIT OPINION 2007/8

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 2007/8. 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 Facilities Management Division of Environmental Services and Derwent New Deal for Communities. These concerns are based on control breakdowns that became apparent during the investigations, but were in existence before the investigations were undertaken. Steps are ongoing to rectify the control issues.**
- 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 2007/8, which represented a completion rate of 90% 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 2007/8 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 solely on the work of Internal Audit.
- 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 2007/8 is shown in Table 1 below:

Table 1: Audit control rating in Final Reports issued in 2007/8 by Department.

Department	Good	Satisfactory	Marginal	Unsatisfactory	Unsound	No Opinion	Total
Regeneration & Community	5						5
Children & Young People	7					2	9
Resources	5	3	1			5	14
Environmental Services	1					1	2
Corporate & Adult Services	2	2	3			2	9
Total	20	5	4			10	39

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 2007/8

- 2.10 Internal Audit completed 90.3% of the planned programme of audit work in 2007/8. The annual target was for 90% completion of the plan. Changes to the audit plan were reported to this Committee through out the year for approval.
- 2.11 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 throughout the year. 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 2007/8

Department	Actual Days
Regeneration and Community	111.00
Children and Young People	414.25
Resources	639.75
Environmental Services	274.00
Corporate and Adult Services	109.25
Total	1548.25

Table 3: Time spent on key areas of audit work in 2007/8

Audit Area	No of Audits	Actual Days
Advice to Clients	10	51.00
Investigations	19	463.50
Follow-up Work	5	8.00
Certification Work	9	64.00
Performance Indicator Audits	13	44.50
Managed Audits	13	186.00
IT Audits	8	116.00
Contract/Partnership Audits	8	78.25
Systems Audits	15	94.75
Probity Audits	4	127.25
Schools FMSiS	102	315.00
Total		1548.25

- 2.12 In respect of internal audit output, the main area for concern in 2007/8 was again the prompt issue of the audit report. Delays were caused by the involvement of senior members of the Team being heavily involved in investigation work. This problem has been recognised by the Section and the new structure introduced in November 2007 is designed to remedy this.

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Background papers:	None
List of appendices:	Appendix 1 - Implications

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'.

