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South Derbyshire District Council – Internal Audit Annual Report 2013-14

Audit Sub-Committee: 18th June 2014

Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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Providing Excellent Audit Services in the Public Sector

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1 Introduction

How an Audit Opinion is Formed

A fundamental role of Internal Audit is to provide members and senior management with independent assurance on the Council's overall control environment, comprising the systems of governance, risk management, and internal control and to highlight control weaknesses together with recommendations for improvement. The annual Audit Plan sets out proposals on how this will be achieved in the year ahead.

The Audit Plan must incorporate sufficient work to enable the Head of Audit to give an opinion on the adequacy of the Council's overall control environment. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.

The audit work planned for 2013/14 has informed the Head of Audit's opinion on the internal control environment that exists within the Council. The Head of Audit reports his overall opinion to the Audit Sub-Committee on an annual basis.

The Head of Internal Audit will provide a written report to those charged with governance which gives an opinion on the overall adequacy and effectiveness of the organisation's internal control environment. 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.

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 Head of Audit's overall audit opinion is based on the work undertaken by internal audit in 2013/14. 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.

Basis For Opinion

In preparing the overall opinion, the Head of Audit has reviewed all audit activity carried out during 2013/14 and noted any issues arising from those audits that have carried forward into 2013/14. 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.

The Head of Audit will use the individual assurance ratings from the audits conducted in 2013/14 and the progress with agreed actions to form the overall opinion.

In presenting his opinion, the Head of Audit will identify where reliance has been placed on work by other assurance bodies. His opinion will be based on the work of Internal Audit and his understanding of work carried out by external assurance agencies.

In respect of the key financial systems of the Council, based on the Internal Audit work undertaken in the year, the Head of Audit will be able to give an overall assurance on the adequacy and effectiveness of the internal controls operating in these systems.

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2 Audit Coverage

Coverage per Type of Audit 2013-14

- Key Financial System
- Governance Review
- Systems/Risk Audit
- IT Audit
- Procurement/Contract Audit
- Investigation
- Advice/Emerging Issues
- Follow-up

Key Financial System: 38%
Governance Review: 11%
Systems/Risk Audit: 26%
IT Audit: 9%
Procurement/Contract Audit: 5%
Investigation: 3%
Advice/Emerging Issues: 6%
Follow-up: 2%
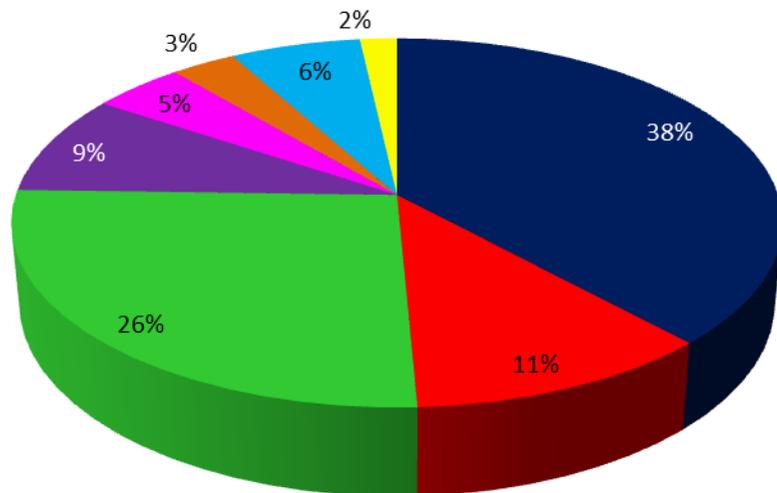
Coverage per Department 2013-14

- Corporate Services
- Community & Planning Services
- Housing & Environmental Services
- Advice & Management

Corporate Services: 74%
Community & Planning Services: 3%
Housing & Environmental Services: 15%
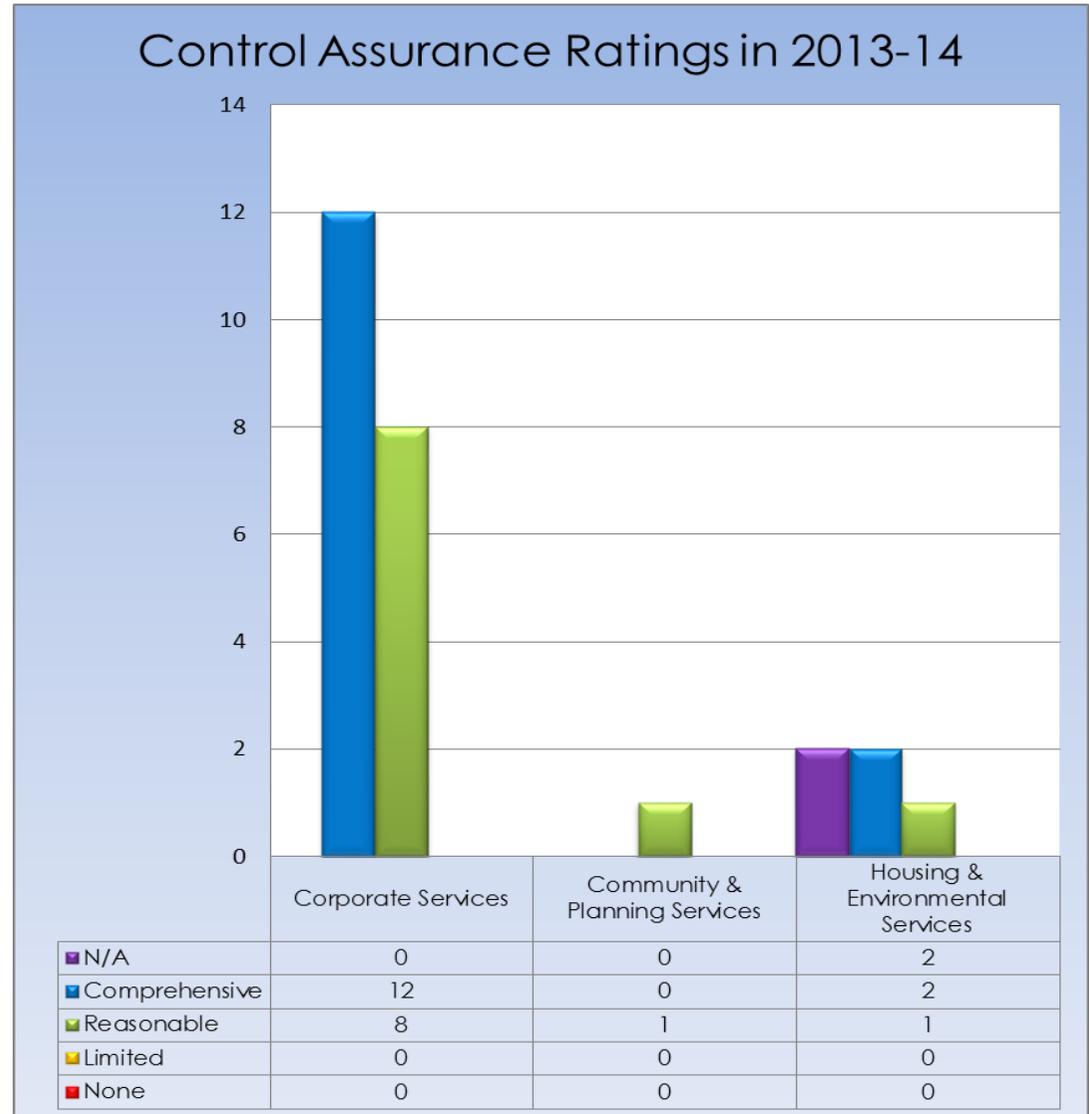Advice & Management: 8%
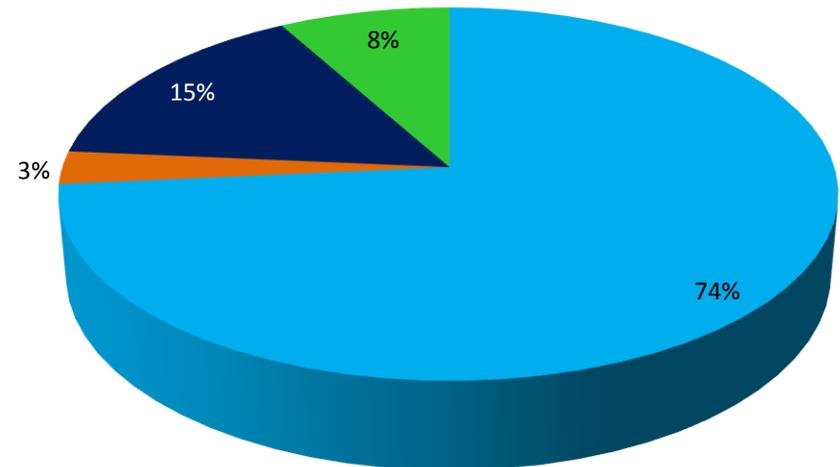
3 Control Assurance Ratings

All audit reviews contain an overall opinion based on the adequacy of the level of internal control in existence at the time of the audit. These are graded as either:

- **N/A** – The type of work undertaken did not allow us to reach a conclusion on the adequacy of the overall level of internal control.

- **Comprehensive** - We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

- **Reasonable** - We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

- **Limited** - We are able to offer limited assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

- **None** - We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

This report rating is determined by the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks. A summary of control assurance ratings given by directorate for 2013/14 is shown in the table across.

Control Assurance Ratings in 2013-14

	Corporate Services	Community & Planning Services	Housing & Environmental Services
N/A	0	0	2
Comprehensive	12	0	2
Reasonable	8	1	1
Limited	0	0	0
None	0	0	0

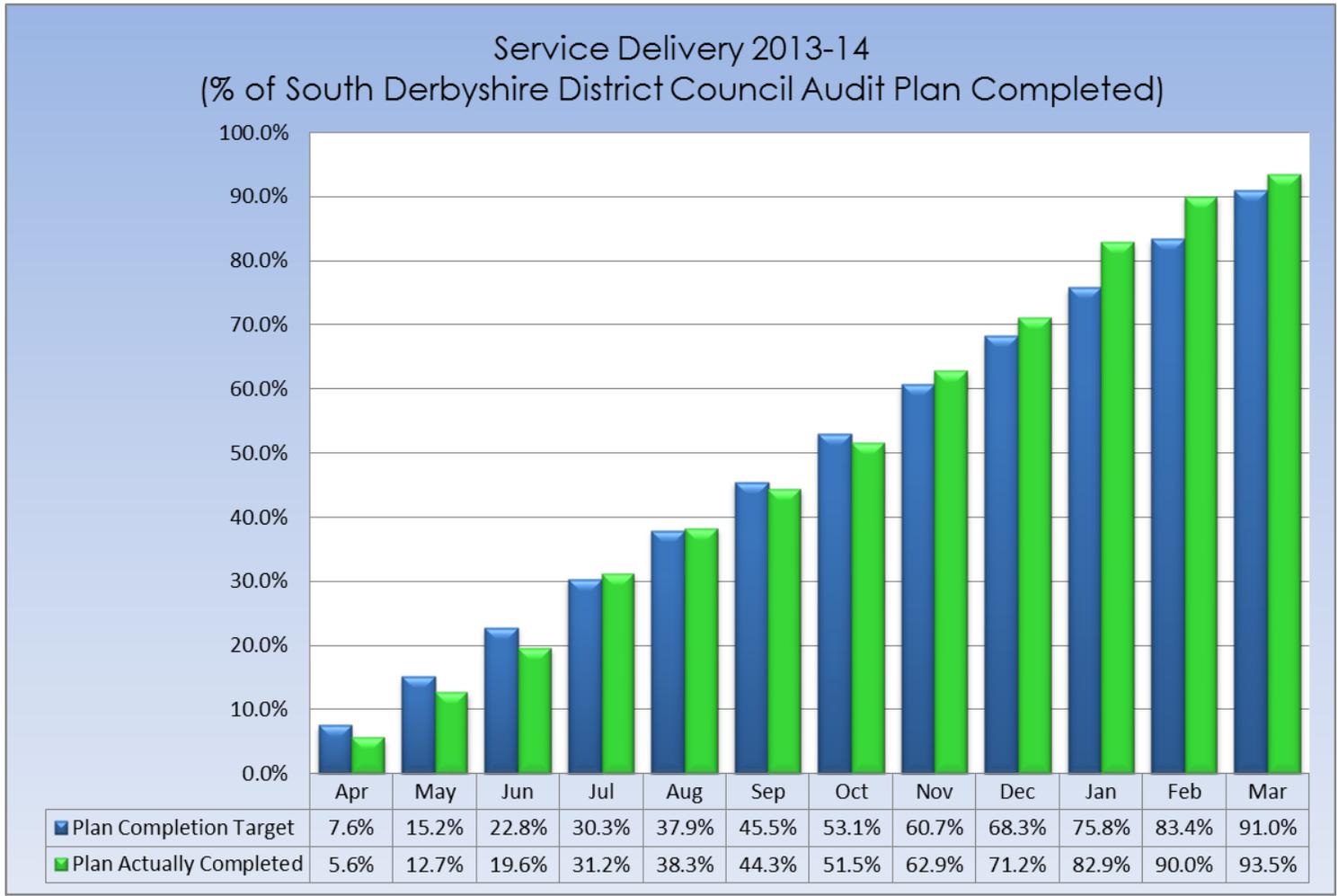# South Derbyshire District Council – Internal Audit Annual Report 2013-14

4 Performance Measures

Service Delivery (% of Audit Plan Completed)

At the end of each month, Audit staff provide the Audit Manager with an estimated percentage complete figure for each audit assignment they have been allocated. These figures are used to calculate how much of each Partner organisation's Audit Plans have been completed to date and how much of the Partnership's overall Audit Plan has been completed.

Shown across is the estimated percentage complete for South Derbyshire's 2013-14 Audit Plan (including incomplete jobs brought forward from the 2012-13 Audit Plan) at the end of the Audit Plan year.

The monthly target percentages are derived from equal monthly divisions of an annual target of 91% and do not take into account any variances in the productive days available each month.

Service Delivery 2013-14
(% of South Derbyshire District Council Audit Plan Completed)

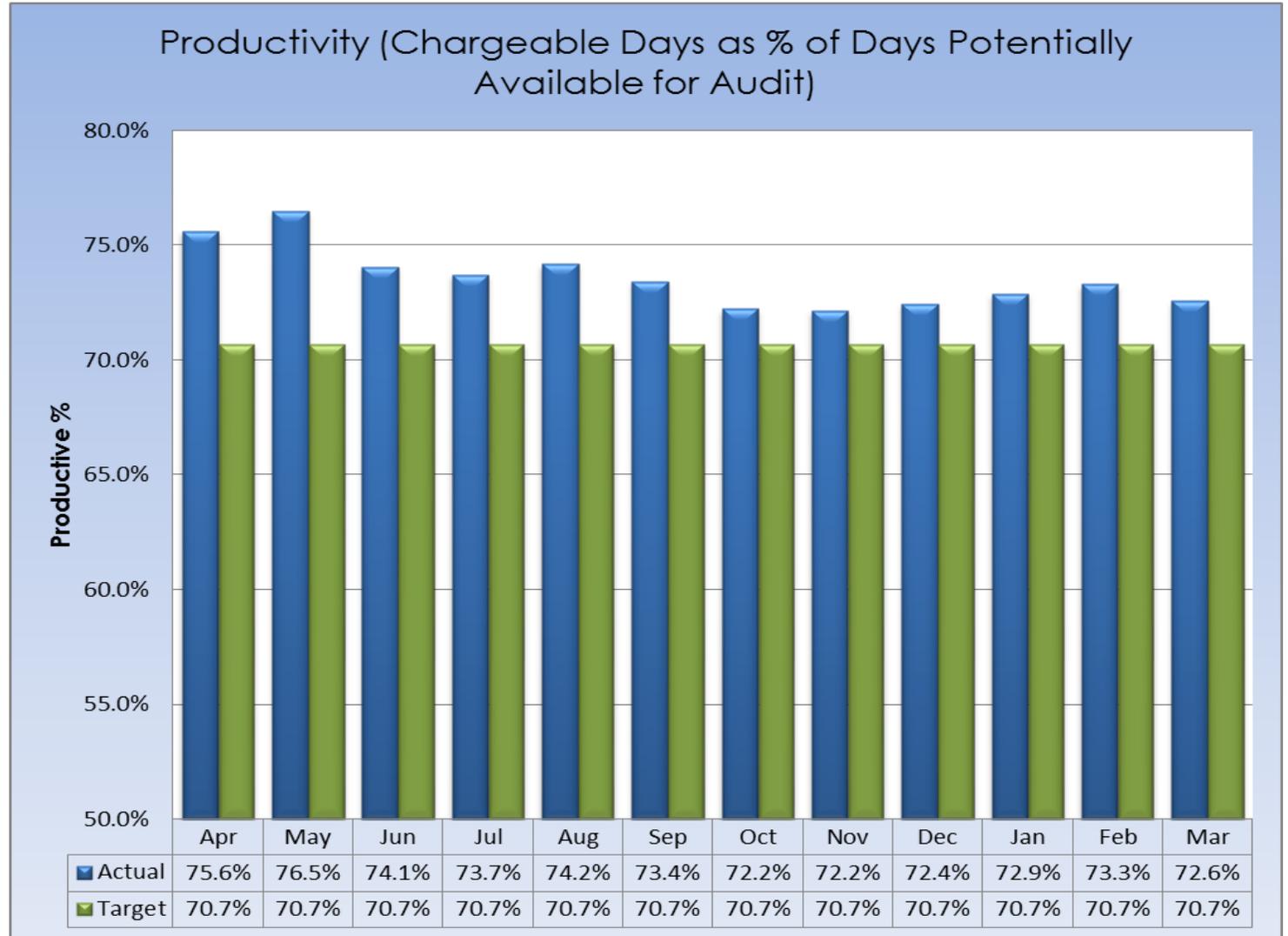|	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Plan Completion Target	7.6%	15.2%	22.8%	30.3%	37.9%	45.5%	53.1%	60.7%	68.3%	75.8%	83.4%	91.0%
Plan Actually Completed	5.6%	12.7%	19.6%	31.2%	38.3%	44.3%	51.5%	62.9%	71.2%	82.9%	90.0%	93.5%

5 Performance Measures

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

Audit staff record the time they spend on audit assignments, administration and management in our bespoke database. Every minute worked is logged against an appropriate code. This time is analysed and compared to planned audit work

Time is analysed between Productive and Non-productive time. We aim to achieve a target productive rate of 70.7% for the year. The average productive rate for the year was 72.6%.

The chart opposite shows how the productivity of the team has fluctuated over the year.

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

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Actual	75.6%	76.5%	74.1%	73.7%	74.2%	73.4%	72.2%	72.2%	72.4%	72.9%	73.3%	72.6%
Target	70.7%	70.7%	70.7%	70.7%	70.7%	70.7%	70.7%	70.7%	70.7%	70.7%	70.7%	70.7%

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6 Customer Satisfaction Returns

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 A summarises the average score for each category from the 24 responses received. The average score from the surveys was 47.6 out of 55. The lowest score received from a survey was 40, while the highest was 55.

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 12 of 24 responses categorised the audit service they received as excellent and another 12 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.

Overall Customer Satisfaction 2013-14

Category	Score
Consultation on audit coverage and timing	4.17
Relevance of audit objectives and scope	4.33
Feedback during the audit	4.04
Helpfulness of the auditor(s)	4.33
Professionalism of the audit team	4.46
Completed in an acceptable timeframe	4.00
Clarity and presentation of the report	4.21
Accuracy of findings	4.29
Soundness and objectiveness of audit's conclusions	4.38
Value of agreed actions to improve control environment	4.21
Overall satisfaction with the audit service	4.25

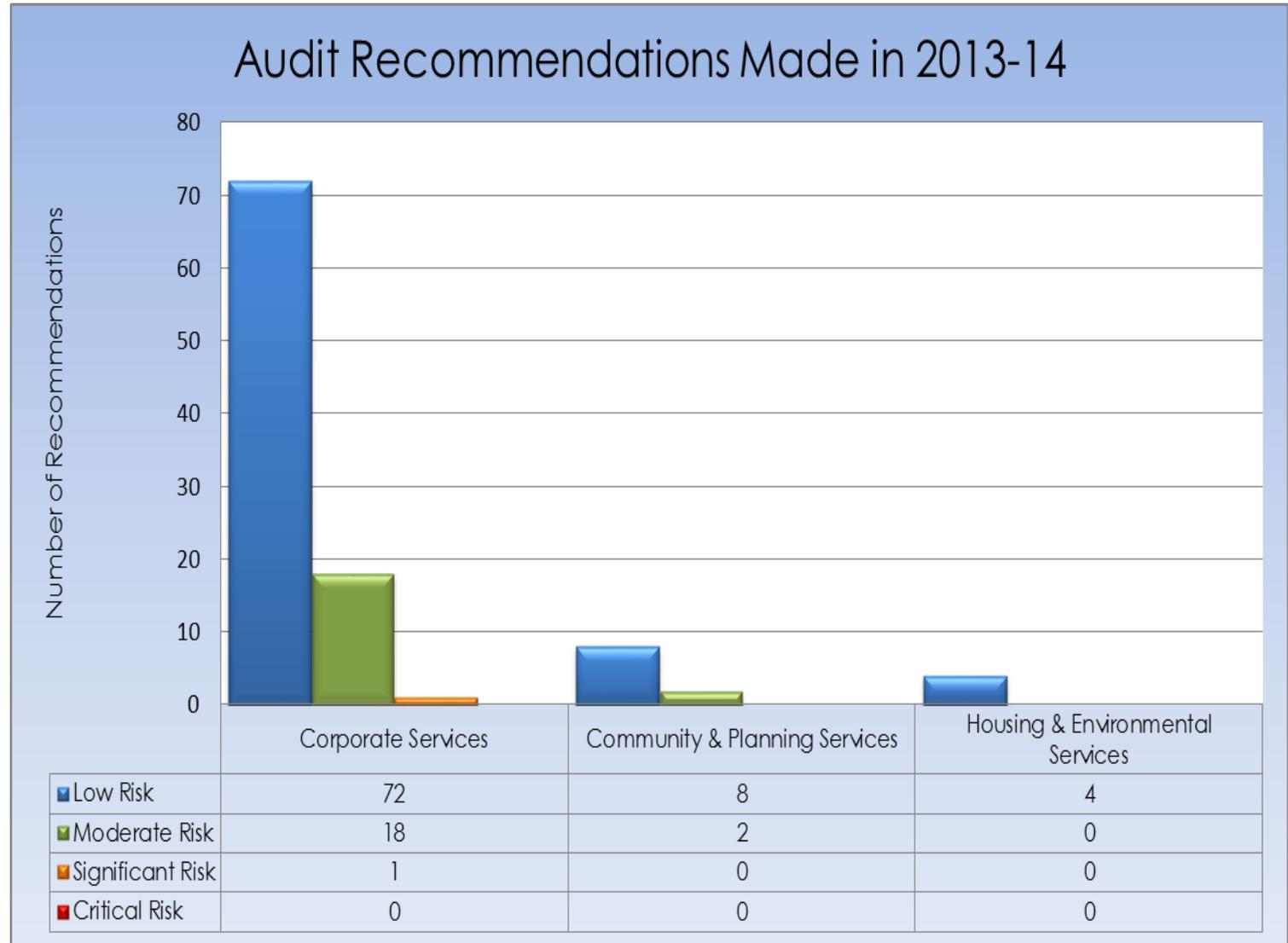# South Derbyshire District Council – Internal Audit Annual Report 2013-14

7 Audit Recommendations

To help management schedule their efforts to implement our recommendations or their alternative solutions, we have risk assessed each control weakness identified in our audits. For each recommendation a judgment was made on the likelihood of the risk occurring and the potential impact if the risk was to occur. From that risk assessment each recommendation has been given one of the following ratings:

- **Critical risk**.
- **Significant risk**.
- **Moderate risk.**
- **Low risk**.

These ratings provide managers with an indication of the importance of recommendations as perceived by Audit; they do not form part of the risk management process; nor do they reflect the timeframe within which these recommendations can be addressed. These matters are still for management to determine. A summary of recommendations made by directorate for 2013/14 is shown in the table across.

Audit Recommendations Made in 2013-14

	Corporate Services	Community & Planning Services	Housing & Environmental Services
Low Risk	72	8	4
Moderate Risk	18	2	0
Significant Risk	1	0	0
Critical Risk	0	0	0

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8 Recommendations Action Status

Internal Audit sends emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We request an update on each recommendation's implementation status, which is fed back into the database, along with any revised implementation dates.

Each recommendation made by Internal Audit has been assigned one of the following "Action Status" categories as a result of our attempts to follow-up management's progress in the implementation of agreed actions. The following explanations are provided in respect of each "Action Status" category:

- **Implemented** = Audit has received assurances that the agreed actions have been implemented.

- **Being Implemented =** Management is still committed to undertaking the agreed actions, but they have yet to be completed. (This category should result in a revised action date).

- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.

- **Accept Risk** = Management has decided to accept the risk that Audit has identified and take no mitigating action.

- **No Status** = Either Audit have been unable to ascertain any progress information from the responsible officer or the recommendations haven't reached their agreed action date.

A summary of the action status of recommendations by directorate for 2013/14 is shown in the table across.

Action Status of Recommendations Made in 2013-14

	Corporate Services	Community & Planning Services	Housing & Environmental Services
Implemented	59	8	2
Being Implemented	4	2	2
Superseded	6	0	0
Accept Risk	0	0	0
No Status	22	0	0