

AUDIT & GOVERNANCE COMMITTEE

3rd June 2015

Report of the Head of Internal Audit Services

INTERNAL AUDIT ANNUAL REPORT/QUARTERLY REPORT 2014/15 QUARTER 4

EXEMPT INFORMATION

None

PURPOSE

To report on the outcome of Internal Audit's review of the Internal Control, Risk Management and Governance Framework in the 4th quarter of 2014/15 – to provide Members with assurance of the ongoing effective operation of an internal audit function and enable any particularly significant issues to be brought to the Committee's attention.

RECOMMENDATION

That the Committee considers the attached quarterly report and raises any issue it deems appropriate.

EXECUTIVE SUMMARY

The Accounts and Audit Regulations 2011 (as amended) require each local authority to publish an Annual Governance Statement (AGS) with its Annual Statement of Accounts. The AGS is required to reflect the various arrangements within the Authority for providing assurance on the Internal Control, Risk Management and Governance Framework within the organisation, and their outcomes.

One of the sources of assurance featured in the AGS is the professional opinion of the Head of Internal Audit Services on the outcome of service reviews. Professional good practice recommends that this opinion be given periodically throughout the year to inform the Annual Governance Statement. This opinion is given on a quarterly basis to the Audit & Governance Committee.

The Head of Internal Audit Services' quarterly opinion statement for Jan - Mar 2015 (Qtr 4) is set out in the attached document, and the opinion is summarised below.

Based on the ongoing work carried out by and on behalf of Internal Audit and other sources of information and assurance, my overall opinion of the control environment for this quarter is that "reasonable assurance" can be given.

Where significant deficiencies in internal control have been formally identified by management, Internal Audit or by external audit or other agencies, management have given assurances that these have been or will be resolved in an appropriate manner. Such cases will continue to be monitored. Internal Audit's opinion is one of the sources of assurance for the Annual Governance Statement which is statutorily required to be presented with the annual Statement of Accounts.

Specific Issues

No specific issues have been highlighted through the work undertaken by Internal Audit during 2014/15.

RESOURCE IMPLICATIONS

None

LEGAL/RISK IMPLICATIONS

Failure to report would lead to non-compliance with the requirements of the Annual Governance Statement and the Public Sector Internal Audit Standards.

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

None

REPORT AUTHOR

Angela Struthers, Head of Internal Audit Services

LIST OF BACKGROUND PAPERS

None

APPENDICES

Appendix 1 Internal Audit Performance Report 2014/15 Quarter 4

**Appendix 2 Percentage of Management Actions Agreed 2014/15
Quarter 4**

Appendix 3 Implementation of Agreed Management Actions 2014/15

INTERNAL AUDIT ANNUAL REPORT/QUARTERLY REPORT – Q4 - 2014/15

1. INTRODUCTION

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (Public Sector Internal Audit Standards)

Internal Audit's role is to provide independent assurance to the Council that systems are in place and are operating effectively.

Every local authority is statutorily required to provide for an adequate and effective internal audit function. The Internal Audit service provides this function at this Authority.

This brief report aims to ensure that Committee members are kept aware of the arrangements operated by the Internal Audit service to monitor the control environment within the services and functions of the authority, and the outcome of that monitoring. This is to contribute to corporate governance and assurance arrangements and ensure compliance with statutory and professional duties, as Internal Audit is required to provide periodic reports to "those charged with governance".

2. PERFORMANCE AND PROGRESSION AGAINST AUDIT PLAN

The Internal Audit service aims as one of its main Performance Indicators (PI's) to complete work on at least 90% of applicable planned audits by the end of the financial year, producing draft reports on these where possible/necessary. **Appendix 1** shows the progress at the end of quarter 4 of the work completed against the plan and highlights the work completed in the fourth quarter. At the end of the fourth quarter, internal audit have commenced/completed 36 audits. The original plan identified 40 audits to be completed, due to service requirements, 9 were cancelled/postponed and an additional 5 audits were completed in other areas. This equates to 90% of the total annual plan (specific reviews). 33 implementation reviews were identified in the original audit plan, the service has completed 39 in total for the financial year.

The service also reports quarterly on the percentage of draft reports issued within 15 working days of the completion of fieldwork. All (100%) of the draft reports issued in this quarter of the year were issued within this deadline.

3. AUDIT REVIEWS COMPLETED QUARTER 4 2014/15

Appendix 2 details the number of recommendations made. A total of 98 recommendations were made in the fourth quarter with 95 (97%) of the recommendations being accepted by management. The total number of recommendations made during 2014/15 was 284 with 276 (97%) being accepted by management.

The service revisits areas it has audited around 6 months after agreeing a final report on the audit, to test and report to management on the extent to which agreed actions have been taken. Twelve Implementation reviews were completed during the 4th quarter of 2014/15. **Appendix 3** details the implementation progress to date for quarter 4 with 72% of the agreed management actions implemented or partially implemented. 13 recommendations not implemented were high priority and management have agreed revised implementation dates for all outstanding recommendations. For the 2014/15 financial year, 39 implementation reviews were completed with a total of 77% of the recommendations made being fully/partially implemented. Internal Audit is fairly satisfied with the progress made by management to reduce the level of risk and its commitment to progress the outstanding issues. Only one recommendation had no progress to date and was medium priority.

Year end summary information 2014/15		Target
Percentage of Audit Plan completed	90%	90%
Draft reports issued within 15 working days	100%	100%
Percentage of recommendation accepted by management	97%	97%
Percentage of recommendations due implemented	77%	-

4. INDEPENDENCE OF THE INTERNAL AUDIT ACTIVITY

Attribute Standards 1110 to 1130 in the Public Sector Internal Audit Standards require that Internal Audit have organisational and individual independence and specifically states that the head of Internal Audit Services must confirm this to the Audit & Governance Committee at least annually. As performance is reported quarterly, this confirmation will be provided quarterly.

The Head of Internal Audit Services confirms that Internal Audit is operating independently of management and is objective in the performance of Internal Audit work.

5 DEVELOPMENTS DURING 2014/15

During 2014/15, Internal Audit has carried out the following:

- Completed the annual risk based audit plan in accordance with the Public Sector Internal Audit Standards;
- Produced a Quality Assurance and Improvement Programme;
- Given an assurance opinion for each audit completed, and a revised opinion on the completion of implementation reviews based upon Internal Audit's assessment of the control environment;
- Reported quarterly to the Audit & Governance Committee on progress against the audit plan;
- Continued to work with management to develop risk management;
- Provided an opinion on the internal control environment for the Annual Governance Statement;

- Provided support and consultancy to develop the contracts register, tendering processes, and grants monitoring on the Covalent system (additional work to the audit plan);
- Continued to complete service enhancements mainly through the use of the Covalent Audit Module;
- Provided Audit Management Services to Lichfield District Council from the 1st October 2014.

6 DEVELOPMENTS FOR 2015/16

The work of the Internal Audit Service will continue to be driven by the regulatory requirements of local government finance and the corporate and operational risks facing the Council. The Service is always looking to continuously improve its service and add value to management through regular audit to improve internal controls and identify efficiencies in their services. During 2015/16 we will complete the following:

- Comply with the Public Sector Internal Audit Standards;
- Complete the internal audit plan in accordance with the performance indicators;
- Continue to work with management to improve risk management;
- Continue to complete service enhancements to provide an efficient service;
- Continue to provide Internal Audit Management service to Lichfield District Council.

OVERALL CURRENT INTERNAL AUDIT OPINION

Based on the ongoing work carried out by and on behalf of Internal Audit and other sources of information and assurance, my overall opinion of the control environment at this time is that “reasonable assurance” can be given. Where significant deficiencies in internal control have been formally identified by management, Internal Audit or by external audit or other agencies, management have given assurances that these have been or will be resolved in an appropriate manner. Such cases will continue to be monitored. Internal Audit’s opinion is one of the sources of assurance for the Annual Governance Statement which is statutorily required to be presented with the annual Statement of Accounts.

Specific issues:

There were no specific issues highlighted through the work of Internal Audit in the third quarter of the 2014/15 financial year.

Angela Struthers,
Head of Internal Audit Services

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