

9th June 2016

## Report of the Head of Internal Audit Services

**INTERNAL AUDIT ANNUAL REPORT/QUARTERLY REPORT 2015/16  
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 2015/16 – 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 2015 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 2016 (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 2015/16.

## **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 2015/16 Quarter 4**

**Appendix 2 Percentage of Management Actions Agreed 2015/16 Quarter 4**

**Appendix 3 Implementation of Agreed Management Actions 2015/16**

## **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 53 audits. The original plan identified 56 audits to be completed, due to service requirements, 8 were cancelled/postponed and an additional 5 audits were completed in other areas. This equates to 95% of the total annual plan (specific reviews). 26 implementation reviews were identified in the original audit plan, the service has completed 34 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 2015/16**

**Appendix 2** details the number of recommendations made. A total of 74 recommendations were made in the fourth quarter with 72 (97%) of the recommendations being accepted by management. The total number of recommendations made during 2015/16 was 246 with 242 (98%) 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. Five implementation reviews were completed during the 4th quarter of 2015/16. **Appendix 3** details the implementation progress to date for quarter 4 with 65% of the agreed management actions implemented or partially implemented. 7 recommendations not implemented were high priority and management have agreed revised implementation dates for all outstanding recommendations. For the 2015/16 financial year, 34 implementation reviews were completed with a total of 79% 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.

Year end summary information 2015/16		Target
Percentage of Audit Plan completed	95%	90%
Draft reports issued within 15 working days	100%	100%
Percentage of recommendation accepted by management	98%	97%
Percentage of recommendations due implemented	79%	-

#### **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 state 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 2015/16**

During 2015/16, 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 Transparency Code timetable, Commercial & Industrial Properties lease/rent renewals, Elections Project Plan and Private Sector Leasing Scheme 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;
- Continued to Provide Audit Management Services to Lichfield District Council.

#### **6 DEVELOPMENTS FOR 2016/17**

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 2016/17 we will complete the following:

- Comply with the Public Sector Internal Audit Standards; after an external assessment of the service, complete any service improvement identified;

- 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 fourth quarter of the 2015/16 financial year

Angela Struthers,  
Head of Internal Audit Services

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