

## AUDIT & GOVERNANCE COMMITTEE

9<sup>th</sup> February 2017

### Report of the Head of Internal Audit Services

#### INTERNAL AUDIT UPDATE REPORT 2016/17

#### 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 3rd quarter of 2016/17 – 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 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' opinion statement for Oct - Dec 2016 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 2016/17.

#### **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 2016/17**

**Appendix 2 Percentage of Management Actions Agreed 2016/17**

**Appendix 3 Implementation of Agreed Management Actions 2016/17**

## INTERNAL AUDIT REPORT – 3<sup>rd</sup> Quarter – 1<sup>st</sup> October – 31<sup>st</sup> December - 2016/17

### 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 3<sup>rd</sup> quarter of the year of the work completed against the plan and highlights the work completed. The original audit plan identified 55 audits to be completed, the plan has been revised to include 2 additional audit not originally identified on the audit plan. At the end of the 3<sup>rd</sup> quarter of the year, internal audit have commenced/completed 39 audits. This equates to 68% of the revised annual plan (specific reviews). 20 implementation reviews were identified in the original audit plan, the service has completed 23 up to the end of the third quarter of 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 2016/17

**Appendix 2** details the number of recommendations made. A total of 130 recommendations were made in the third quarter with 127 (98%) of the recommendations 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. Three 2<sup>nd</sup> implementation reviews were completed during the 3<sup>rd</sup> quarter of 2016/17. **Appendix 3** details the implementation progress to date for the 3<sup>rd</sup> quarter of the financial year with 47% (9/19) implemented/partially implemented at 2<sup>nd</sup> implementation review. Two recommendations not implemented at 2<sup>nd</sup> implementation review were high priority and management have agreed revised implementation dates for all outstanding recommendations. 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.

#### **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.

#### **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 2016/17 financial year that would need to be highlighted as a corporate risk

Angela Struthers,  
Head of Internal Audit Services