

AUDIT & GOVERNANCE COMMITTEE

26th JANUARY 2012

Report of the Head of Internal Audit Services

INTERNAL AUDIT QUARTERLY REPORT 2011/12

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 2011/12 - 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.

RECOMMENDATIONS

That the Committee considers the attached quarterly report and raises any issues 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 on the outcome of services' review of the governance framework. Professional good practice recommends that this opinion be given periodically throughout the year to inform the "annual opinion statement". This opinion is given on a quarterly basis to the Audit & Governance Committee.

The Head of Internal Audit Services quarterly opinion statement for October – December 2011 (Qtr 3) 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 at this time is that "some 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 2011/12 (to date).

For easy reference, performance against 2 key performance indicators for the service is set out in graphical form in Appendix 1 (% of draft reports issued within timeliness target) and Appendix 2 (% of audit recommendations agreed by management). The proportion of agreed management actions found to have been implemented is also shown graphically in Appendix 3.

RESOURCE IMPLICATIONS

None

LEGAL/RISK IMPLICATIONS BACKGROUND

None

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

None

REPORT AUTHOR

Angela Struthers, Head of Internal Audit Services

LIST OF BACKGROUND PAPERS

None

APPENDICES

- Appendix 1 Percentage of draft reports issued within 15 days
- Appendix 2 Percentage of management actions agreed
- Appendix 2a Management actions agreed by number
- Appendix 3 Proportion of agreed management actions implemented 11/12

INTERNAL AUDIT ANNUAL REPORT/QUARTERLY REPORT – Q3 - 2011/12

1. INTRODUCTION

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. 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. As in previous years it is expected that not all 62 planned areas of audit work will remain to be delivered for various reasons, eg due to changes within services, delays to projects, or reasonable requests to delay from managers due to unexpected demands or resource problems eg sickness. The service thus plans to complete 90% of those audits that are deliverable in the year.

The Internal Audit service has completed or has underway 40 audit areas of work. Of the 52 audits planned to be completed by the end of this quarter, 6 of these have been postponed until a later date for agreed service reasons. The Internal Audit Service has completed works in additional areas as requested by management. As previously described, the plan has been actively managed to seek to ensure delivery of good practice levels over the year. Areas of audit work include the planned audits of systems plus activities that contribute to the overall governance of the authority.

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 5 draft reports issued in this quarter of the year were issued within this deadline. The service has increased the performance indicator for the issue of draft reports to 100% for this financial year as this was achieved during each quarter of 2010/11. (see graph at Appendix 1).

The Head of Internal Audit Services is responsible for ensuring that the work of the service is of appropriate quality to meet professional standards, and has in place, on an ongoing basis, a number of processes to meet this aim. For instance, there is an Audit Manual in place to guide auditors in their work, the Head of Internal Audit Services carries out independent review of auditors work to ensure professional standards are met, the service benchmarks its performance against other such services in the region, quality control questionnaires are issued to managers for their view on the work of the service, and so on. The service is also subject to review by the external auditor, who places reliance on the work of the service. It is considered

that the service continues to ensure professional standards are in place, and indeed in its move to risk based auditing is ahead of most other similar audit services in the region in adopting emerging good practice.

3. AUDIT REVIEWS COMPLETED QUARTER 3 2011/12

Internal Audit carries out reviews in compliance with its approved annual Audit Plan and additional areas where necessary, and reports on these to management in accordance with its approved Reporting Protocol. The audits finalised since the previous quarterly report were as shown below and detail the number of recommendations made and their priority.

	H	M	L	Agreed
• Treasury Management	-	-		N/A
• Planning	-	1		1
• Council Tax	-	6		6
• Property Contracts	3	2		5
• Freedom Of Information	10	8		18
• Payroll	1	4		5
• Virtual Servers	3	14	3	20

As part of each audit review, recommendations are made where necessary to address areas where the Internal Audit service considers controls, or compliance with controls, could be improved to help to manage risks to service objectives and ensure service objectives are met.

Accordingly a total of 55 new audit recommendations were made in this quarter of which 55 (100%) were agreed by management (this is the third main service PI – see Appendix 2. Appendix 2.1 shows the number of recommendations made and agreed). Internal Audit is satisfied with the management responses received to the recommendations made in this period. Each audit will be reviewed within the specified time scale and the implementation status of the audit recommendations reported.

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. Work in this quarter to review the level of implementation of recommendations previously agreed found that of 11 recommendations due to be implemented, 6 (55%) had been implemented or partially implemented in the agreed timescale (Appendix 3). Internal Audit is fairly satisfied with the progress made by management to reduce the levels of risk through the year. One high risk recommendation has yet to be completed in relation to Emergency Planning and the access restriction or destruction of old plans to comply with the Data Protection Act.

4. 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 “some 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 second quarter of the 2011/12 financial year

Angela Struthers,
Head of Internal Audit Services