

## **INTERNAL AUDIT ANNUAL REPORT/QUARTERLY REPORT – Q3 - 2012/13**

### **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 80 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 72% of the deliverable audit plan to date during this financial year. Changes to the timings of the audits have been made for various reasons e.g. due to changes within services, delays to projects, or reasonable requests to delay from managers due to unexpected demands or resource problems details of which are given in **Appendix 4**. 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. **Appendix 4** details the Internal Audit plan status as at 31<sup>st</sup> December 2012.

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 15 draft reports issued in this quarter of the year were issued within this deadline. (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 2012/13

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	-	-	-	
• Creditors	1	1		2
• Debtors	-	-		
• Council Tax	-	2		2
• NNDR	-	1		1
• Payroll	2			2
• Bank reconciliation	-	2		2
• Building Security	-	1		1
• Community Safety Hub	2	3		5
• Tourism & Town Centre	-	1		1
• Car Park Income	-	3		3
• Castle	-	4		4

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 23 new audit recommendations were made in this quarter of which 23 (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. The Implementation review finalised during the 3rd quarter of 2012/13 relates to the audit completed on External IT Provider. Eleven

recommendations were made and at implementation review, nine had been implemented. One of the two outstanding recommendations is high risk and will be further followed up to ensure it is implemented.

#### **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 “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 2012/13 financial year

Angela Struthers,  
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