

AUDIT & GOVERNANCE COMMITTEE

26th May 2011

Report of the Head of Internal Audit Services

INTERNAL AUDIT QUARTERLY REPORT 2010/11

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 2010/11 - 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.

Executive Summary

The Accounts and Audit Regulations 2003 (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 featuring in the AGS is the professional opinion of the Head of Internal Audit on the outcome of her services' review of the framework. Professional good practice recommends that this opinion be given periodically throughout the year to inform the annual opinion statement. At Tamworth Borough Council this opinion is currently given quarterly.

The Head of Internal Audit Services quarterly statement opinion as at the end of quarter 4, and for 2010/11, is set out in the attached document, and the opinion is set out 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 2010/11.

For easy reference, performance against 2 key performance indicators for the service is set out in graphical form in Appendices 1 (% of draft reports issued within timeliness target) and 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.

Implications of this report

While there are no direct implications in relation to community/performance planning, sustainable development, community safety, equal opportunities or human rights, this report refers to the internal review of the framework of governance, risk management and internal control within the organisation. Such review should, over time, help to contribute to improvements in many of these areas.

Recommendations

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

“If Members would like further information or clarification prior to the meeting please contact Angela Struthers, Head of Internal Audit Services on Ext.234”

INTERNAL AUDIT ANNUAL REPORT/QUARTERLY REPORT – Q4 2010/11

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 66 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 58 audit areas of work. Of the 66 audits planned to be completed in this quarter, 9 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 9 draft reports issued in this quarter of the year were issued within this deadline, compared to a PI target of 87.5%. The service continues to exceed the 87.5% target on an ongoing basis (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 4 2010/11

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 | No Agreed |
|-----------------------------|---|----|---|-----------|
| • Treasury Management | - | - | - | N/A |
| • Debtors | - | 2 | - | 2 |
| • NNDR | 3 | 20 | - | 23 |
| • Payroll | - | 18 | - | 15 |
| • Housing Rents | 4 | 11 | - | 15 |
| • Legislation | - | 10 | - | 10 |
| • VAT | 3 | 15 | - | 16 |
| • Economic Development | 1 | - | - | 1 |
| • Software Asset Management | 5 | 14 | 2 | 21 |

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 108 new audit recommendations was made in this quarter of which 103 (95.4%) 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 6 recommendations due to be implemented, 6 (100%) 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. It is not considered that there are any areas of major concern that should be brought to the Committee's attention in this respect at this time, and the service will continue to monitor the situation.

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.

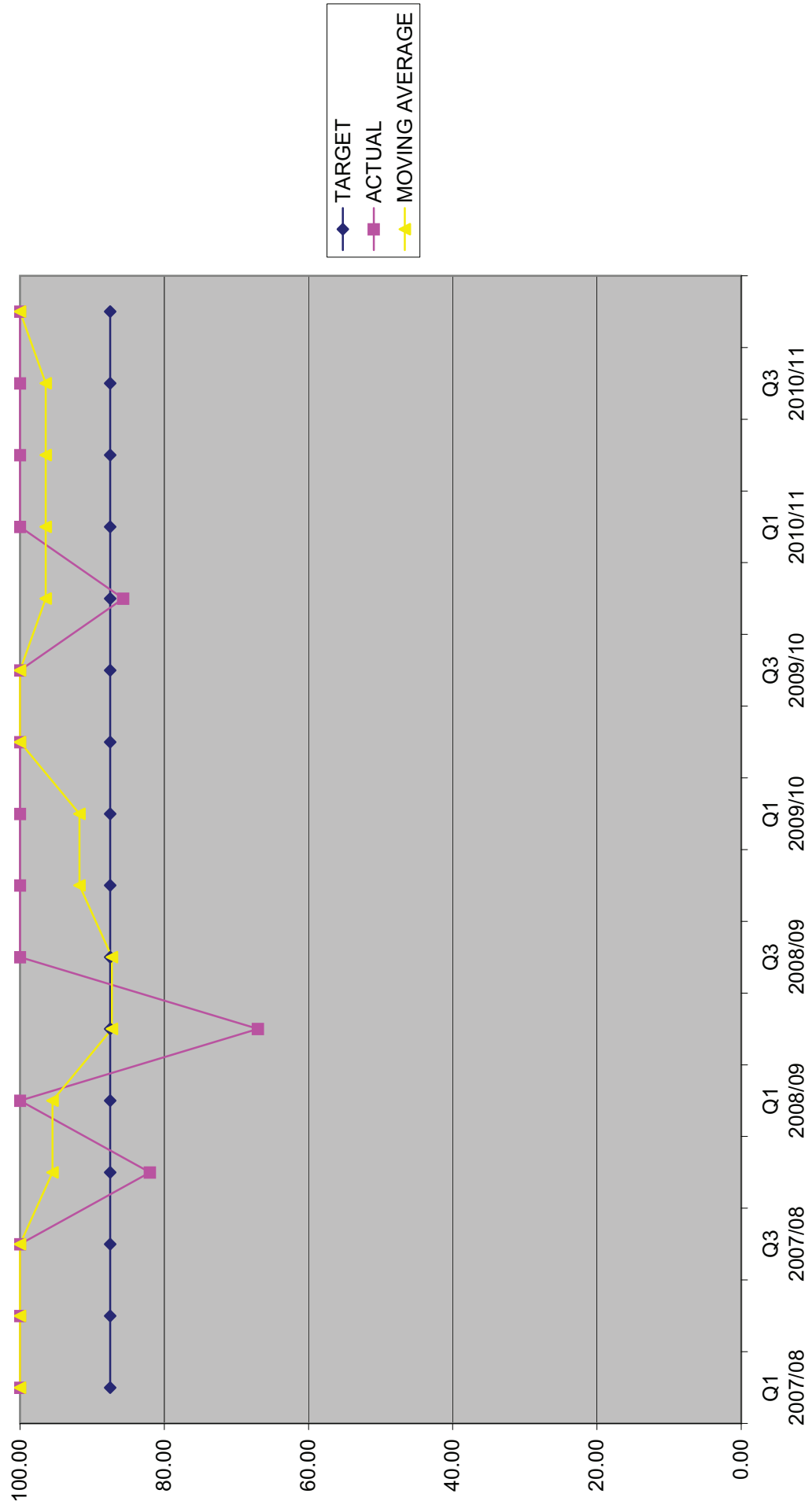
Specific issues:

There were no specific issues highlighted through the work of Internal Audit in the fourth quarter of the 2010/11 financial year

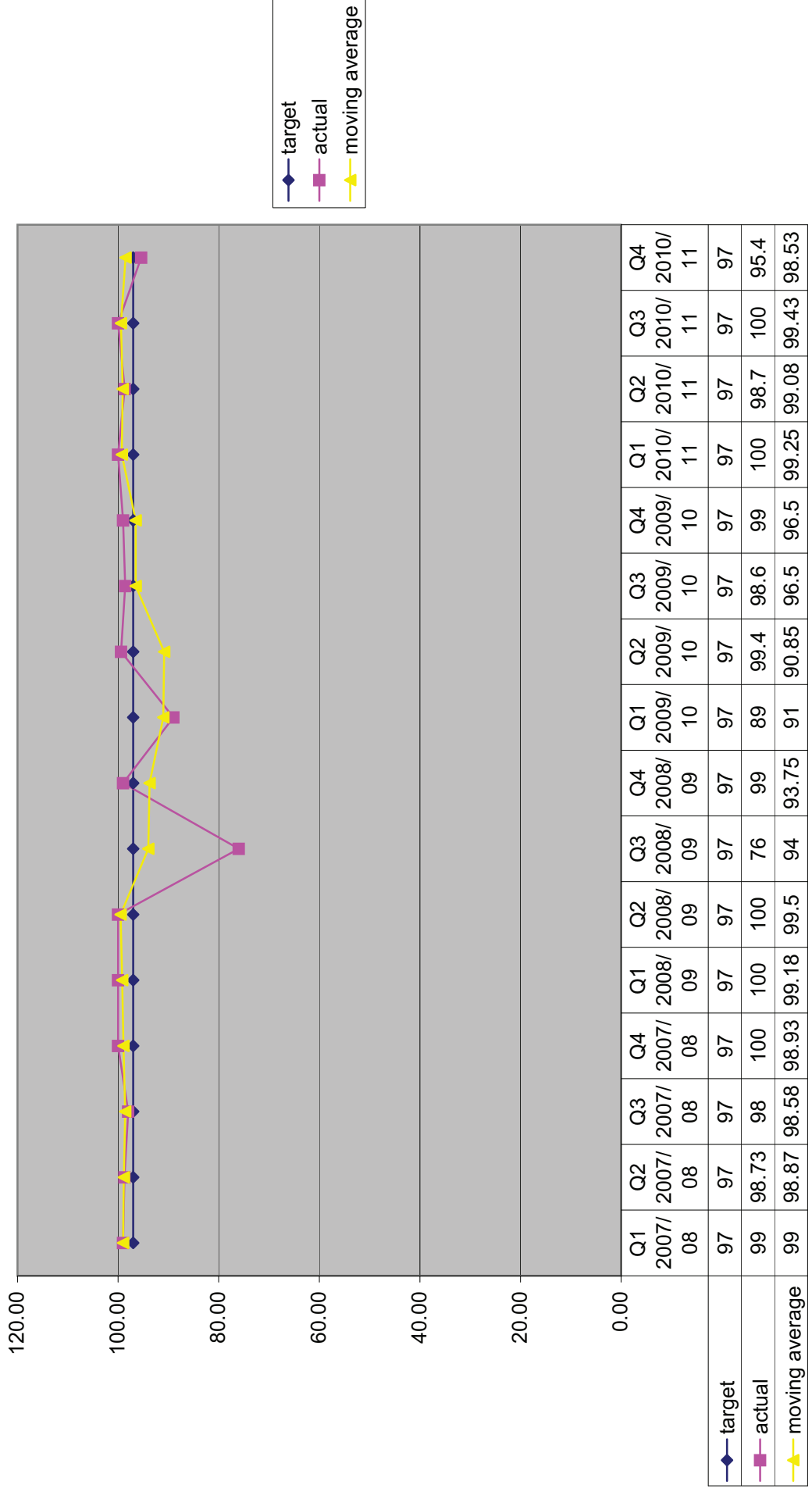
Angela Struthers,
Head of Internal Audit Services

Appendix 1

Percentage of draft reports issued within 15 days

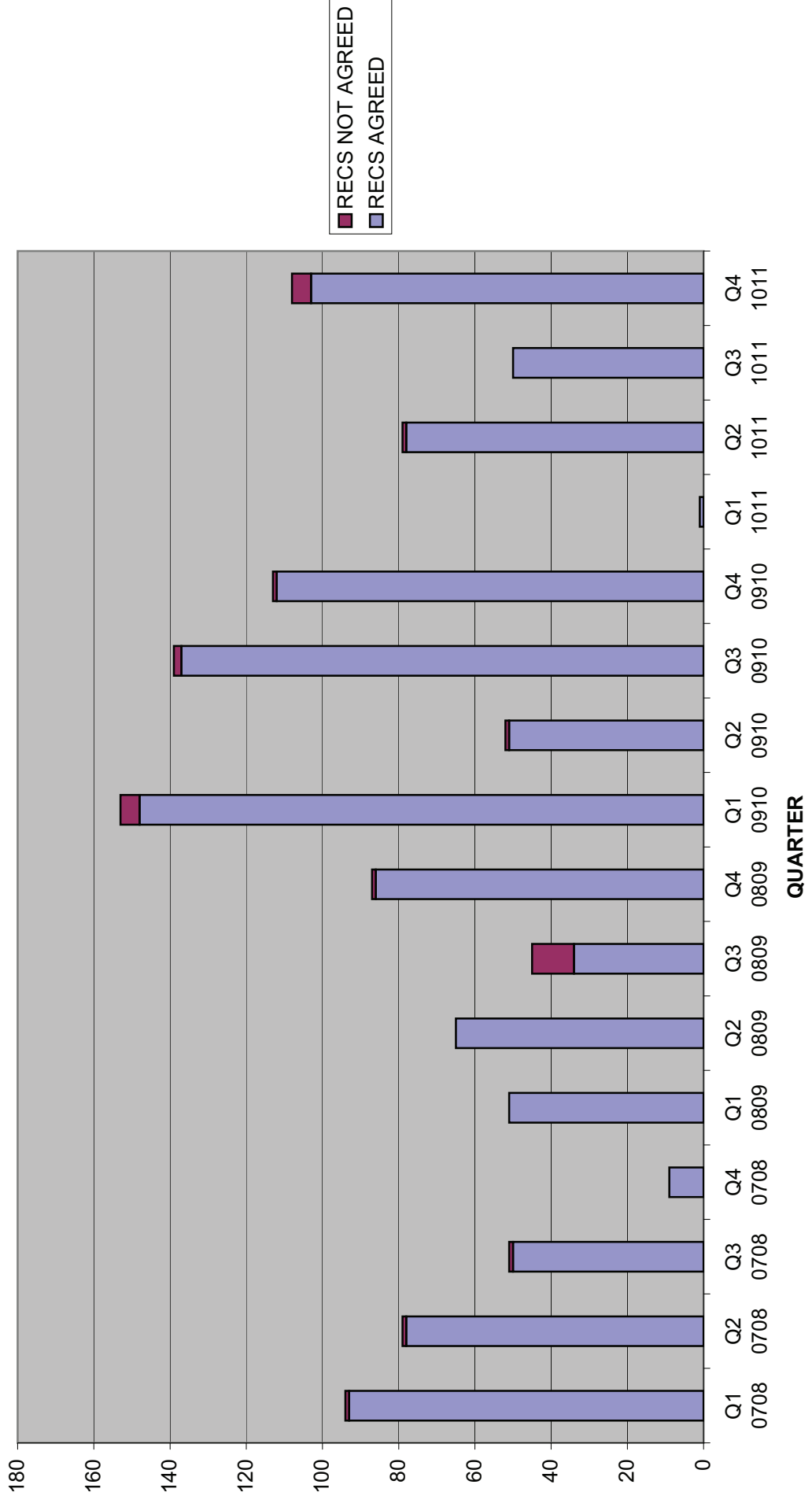


Appendix 2
Percentage of management actions agreed



Appendix 2.1

MANAGEMENT ACTIONS AGREED BY NUMBER



Appendix 3

Proportion of agreed management actions implemented 2009/10

