

27<sup>th</sup> JUNE 2013

**REPORT OF THE HEAD OF INTERNAL AUDIT SERVICES**

**INTERNAL AUDIT ANNUAL OPINION & QUARTERLY REPORT**

**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 2012/13 – to provide Members with assurance of the ongoing effective operation of the internal audit function and enable any particularly significant issues to be brought to the Committee's attention.

**RECOMMENDATIONS**

**That the committee considers the attached annual opinion & 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 Services on the outcome of service reviews 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' annual opinion statement for 2012/2013 is set out in the attached document (detailing the work completed to date), and the opinion is summarised below.

Based on the ongoing work carried out by and behalf of Internal Audit and other sources of information and assurance, my overall opinion of the control environment for the financial year 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 2012/13.

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** and **2.1** (% of audit recommendations agreed by management). The proportion of agreed management actions found to have been implemented is also shown graphically in **Appendix 3**. Details of the 2012/13 audit plan completion status as at 31<sup>st</sup> March 2013 is detailed at **Appendix 4**.

## RESOURCE IMPLICATIONS

None

## LEGAL/RISK IMPLICATIONS BACKGROUND

None

## SUSTAINABILITY IMPLICATIONS

None

## BACKGROUND INFORMATION

None

## REPORT AUTHOR

Angela Struthers ex 234

## LIST OF BACKGROUND PAPERS

None

## APPENDICES

**Appendix 1** – Percentage of draft reports issued within 15 days

**Appendix 2** – Percentage of audit recommendations agreed by management

**Appendix 2.1** – Number of recommendations made and agreed

**Appendix 3** – Proportion of agreed management actions implemented

**Appendix 4** – Internal Audit Plan status as at 31<sup>st</sup> March 2013

## **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 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.

Of the 80 audits originally identified, 11 were cancelled by the request of management leaving 69 audits to be delivered. The Internal Audit service has completed or has underway 66 (95.6%) of the deliverable audit plan to date during the 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 7 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> March 2013.

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 4 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	Agreed
• Treasury Management Qtr 3	-	-	-
• CT & Housing Benefits	-	-	-
• Health & Safety	10	4	13
• Tourist Information Centre	-	2	2
• Housing Allocations	2	10	12
• Mobile Telephony	7	3	10
• Ombudsmen Process	-	-	-
• Academy Application Review	-	4	4
• Street Scene	-	6	6
• Outdoor Events	-	11	11
• Operational Services Financial Controls	3	3	6

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 65 new audit recommendations were made in this quarter of which 64 (98.5%) 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 4<sup>th</sup> quarter of 2012/13 relates to the audit completed on Data Quality & Records Management. Twenty six recommendations were made and at implementation review, eleven had been implemented. Four of the fifteen outstanding recommendations are high risk and as such a further follow up will be completed to ensure they are implemented.

### 4. INDEPENDENCE OF THE INTERNAL AUDIT ACTIVITY

Attribute Standards 1110 to 1130 in the Public Sector Internal Audit Standards require that Internal Audit have organizational and individual independence and specifically state that the Head of Internal Services must confirm this to the Audit & Governance Committee at least annually. 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. 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 2012/13 financial year

Angela Struthers,  
Head of Internal Audit Services

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