

AUDIT & GOVERNANCE COMMITTEE

30th JANUARY 2014

Report of the Head of Internal Audit Services

INTERNAL AUDIT QUARTERLY REPORT 2013/14 QUARTER 3

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 2013/14 - 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 service reviews. 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 Oct – Dec 2013 (Qtr3) 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 "some assurance" can be given. My overall opinion of the control environment for the year to date 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 2013/14.

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 Internal Audit Performance Reports 2013/14 Quarter 3.
- Appendix 2 Percentage of Management Actions Agreed 2013/14 Quarter 3.
- Appendix 3 Implementation of Agreed Management Actions 2013/14 Quarter 3.

INTERNAL AUDIT ANNUAL REPORT/QUARTERLY REPORT – Q3 - 2013/14

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. 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 quarter 3 of the work completed against the plan and highlights the work completed in the third quarter. The original audit plan identified 71 (originally 72 but 2 audits were merged together) areas of work (including implementation reviews). At the end of quarter 3, additional work completed includes an additional 23 implementation reviews and 7 audits for the current financial year. In addition, 4 implementation reviews identified at the beginning of the financial year have been cancelled. The report has been split to distinguish between audits and implementation reviews. Internal Audit have completed 65% of the revised total of audits and 69% of the revised implementation reviews (taking into account the cancelled implementation reviews).

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.

3. AUDIT REVIEWS COMPLETED QUARTER 3 2013/14

The audits finalised in the third quarter of 2013/14 are shown in **Appendix 2** and this identifies the number of recommendations made. A total of 148 recommendations were made in the third quarter with 146 (99%) being accepted by management. The two audit recommendations not agreed were both highlighted in the Commercial and Industrial Properties audit and were not deemed high priority.

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 implementation reviews were completed during the 3rd quarter of 2013/14. **Appendix 3** details the implementation progress to date for 2013/14. Internal Audit is fairly satisfied with the progress made by management to reduce the levels of risk through the year. However, there are still a number of high

priority actions that have not been completed. Internal Audit will complete further implementation reviews to ensure that these 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 organisational and individual independence and specifically state 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.

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 third quarter of the 2013/14 financial year

Angela Struthers,
Head of Internal Audit Services