

GOVERNANCE COMMITTEE

Item 4

MEETING: 24TH JUNE 2013

SUBJECT: INTERNAL AUDIT ANNUAL REPORT – 2012/2013

REPORT OF THE HEAD OF INTERNAL AUDIT

1. Purpose of Report

- 1.1 To consider the performance of Internal Audit for 2012/2013, areas of work undertaken, and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

2. Description of Decision

- 2.1 The Governance Committee is asked to consider and note the Internal Audit Annual Report.

3. Key Performance Indicators

- 3.1 The Internal Audit service measures its performance in terms of Efficiency, Quality and Client Satisfaction. Performance during the year is shown in Appendix 1. Where possible, performance specifically relating to the Authority is included. All KPI's were achieved.

4 Summary of Internal Audit Work

- 4.1 All of the audits included within the plan for the year were completed. The findings of these audits have been taken together with the findings of audits from the previous two years to form an opinion on each of the identified key risk areas and an opinion of the adequacy of the overall system of internal control for the Authority. The detailed analysis of these opinions is provided at Appendix 2. The opinions provided from Internal Audit work now set out the level of assurance that can be provided for each piece of work and for the risk area overall. The definitions of assurance are set out below:

Level of Assurance	Example wording of opinion
Full	The findings of the audit give full assurance. The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. No issues were identified which would prevent objectives being achieved.
Substantial	The findings of the audit give substantial assurance. The

Level of Assurance	Example wording of opinion
	controls evaluated are well designed, appropriate in scope and applied consistently and effectively. Any issues identified are minor in nature and should not prevent objectives being achieved.
Moderate	The findings of the audit give moderate assurance. The majority of the controls evaluated are well designed and appropriate in scope, although they are not always applied consistently and effectively. Issues have been identified that increase the risk of objectives not being achieved and therefore require management attention.
Limited	The findings of the audit give limited assurance. The control framework is not appropriate in design or scope and the controls which are in place are not applied consistently and effectively. The issues identified require immediate management attention and, if unresolved, pose a significant risk of objectives not being achieved
None	The findings of the audit give no assurance. The control framework is poor or non-existent. Gaps in coverage or inconsistent or ineffective implementation have been identified that require immediate management attention. The issues, if unresolved, pose a significant risk of objectives not being achieved.

- 4.2 As a result of the audits carried out, a number of recommendations have been made to improve internal control. The numbers of recommendations made are shown below:

Categorisation of Risk	Definition	Number Made
High	A fundamental control weakness which presents material risk to the audited body and requires immediate attention by senior management.	0
Significant	There is a control issue which could have a significant impact on the achievement of the aims and objectives of the organisation, or which presents a significant risk to the organisation's reputation. Prompt management action is required to remedy the situation.	0
Medium	There is a control weakness within the system, which presents material risk to the area or service being audited, and management attention is required to remedy the situation within a reasonable period.	26

Categorisation of Risk	Definition	Number Made
Low	There is a minor control weakness or non-compliance within the system and proportional remedial action is required within an appropriate timescale.	8

4.3 Twelve of the medium risk recommendations made were in relation to the catering function. This was not unexpected as the function has recently been aligned with the authority's business, having previously been operated on a mess fund basis.

4.4 The work undertaken did not identify any matters material to the overall internal control environment of the Authority.

5. Effectiveness of the System of Internal Audit

5.1 The Audit Commission have carried out an independent review of the effectiveness of Internal Audit by reference to the CIPFA Code of Practice for Internal Audit. The Audit Commission concluded that the service continues to comply with the relevant standards.

6. Conclusions

6.1 This report provides assurance that all of the planned audit work was completed within the year.

6.2 Using the cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken within 2012/2013, it is considered that overall throughout the Authority there continues to be an adequate internal control environment.

Background Papers

Internal Audit Operational Plan 2012/2013 - Governance Committee
19th March 2012.

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2012/13			
Efficiency and Effectiveness			
Objectives	KPI's	Targets	Progress
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified. 2) Percentage of draft reports issued within 15 days of the end of fieldwork. 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	1) All key risk areas covered over a 3 year period 2) 90% 3) 70%	1) Achieved 2) Achieved (100%) 3) Achieved (80%)
Quality			
Objectives	KPI's	Targets	Progress
1) To maintain an effective system of Quality Assurance.	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure recommendations made by the service are agreed and implemented.	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented.	2) 100% for high and significant. 90% for medium risk	2) Achieved (High and significant – n/a Medium – 92%)
Client Satisfaction			
Objectives	KPI's	Targets	Progress
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) Achieved (Average score for last 12 months is 1.0) 2) None undertaken 3) One compliment received and no complaints

Internal Audit Coverage

Key Risk Area	Planned Audits	Conclusion (audits undertaken 2012/13)	Overall Opinion from Previous 3 years work
Corporate Governance			Substantial Assurance
Service / Business Planning, IRMP	Training Centre Fire Safety Inspections	Moderate Assurance Substantial Assurance	Substantial Assurance
Financial Management	Local Financial Systems Catering	Substantial Assurance Moderate Assurance	Substantial Assurance
Risk Management			Substantial Assurance
Procurement and Contract Management	Purchasing Cards	Substantial Assurance	Moderate Assurance
Human Resource Management			Substantial Assurance
Asset Management			Substantial Assurance
ICT			Moderate Assurance
Fraud and Corruption	Payroll and Accounts Payable Transaction Testing	Substantial Assurance	Substantial Assurance
Information Governance			Moderate Assurance
Business Continuity and Contingency Planning			Moderate Assurance
Performance Management			Substantial Assurance
Payroll			Substantial Assurance
Partnership Working	Partnership Arrangements	Substantial Assurance	Moderate Assurance
Project Management			Substantial Assurance

