

By: Neeta Major, Interim Head of Internal Audit  
To: Governance and Audit Committee – 26 July 2012  
Subject: **INTERNAL AUDIT ANNUAL & PROGRESS REPORT**  
Classification: Unrestricted

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**Summary:** The Annual Report summarises the output of the Internal Audit annual plan, provides the opinion on the Council's system of internal control and provides commentary on the performance of the Internal Audit Section.

## **FOR ASSURANCE (One item for decision)**

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### **Introduction and background**

1. CiPFA's<sup>1</sup> Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) requires that the Head of Internal Audit must provide a written report to those charged with governance timed to support the Annual Governance Statement. This report must:
  - include an opinion on the overall adequacy and effectiveness of the organisation's control environment;
  - disclose any qualifications to that opinion, together with the reasons for the qualification;
  - present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
  - draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
  - compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and targets;
  - comment on compliance with the Code of Practice and communicate the results of the Internal Audit quality assurance programme.

### **Head of Audit Annual Report**

2. The Annual Report (attached at Appendix 1) meets the requirements of the CiPFA code set out above. In addition, this report supports the Annual Governance Statement by providing an opinion in relation to the internal control environment, risk management processes and corporate governance of the Council.
3. For the year 2011/12 the opinion is:

**Substantial** in relation to the internal control environment and corporate governance arrangements i.e. controls are generally well designed and applied consistently but there are some weaknesses that require management attention.

**Limited** in relation to risk management processes due to the evolving organisational structure and resulting changes to the Council's Risk Management framework. In the latter part of the year many improvements have been made e.g. a refresh of the Corporate Risk Register. Further work is progressing in 2012/2013 to embed risk management across the Council.

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<sup>1</sup> Chartered Institute of Public Finance and Accountancy

## Audit Opinions and Recommendations

4. On 16 March 2011 G&A Committee approved changes in the audit opinions and recommendation priorities for the 2011/12 audit programme. As part of the review of Internal Audit's work for 2011-12, feedback has been obtained in relation to opinions provided. Having reviewed the feedback it is proposed to make changes to reflect current best practice and the feedback obtained. The proposed revised definitions for audit opinions and recommendation priorities are included in Appendix 2 to this report.
5. The key proposed changes include:
  - Revising the highest level of assurance from "full" assurance to "high" assurance. This reflects best practice which states that an audit function can never provide full or absolute assurance due to certain inherent risks associated with all systems of controls e.g. the risk of fraud due to collusion. Also as Internal Audit don't review 100% of transactions there is always a risk that there are errors in the transactions not tested. Hence Internal Audit can never provide full assurance.
  - The introduction of an additional level of assurance - "**adequate**" assurance to reflect a system of control that adequately protects a system or service from key risks, but where there are several areas of control enhancements required.
  - Refinement of assurance level definitions to distinguish between controls being assessed as **adequate** (i.e. the right controls are in place) and those that are assessed as **effective** (i.e. the controls are working correctly).
  - Simplification of recommendation priority definitions to reflect priority of implementation for the particular system or service being audited.
  - Application of the same assurance levels and definitions to both routine audits and compliance audits.
  - No changes are proposed to the follow up process.

## Recommendations

6. Members are asked to:
  - Note for assurance the internal audit annual report for 2011/2012 (**Appendix 1**).
  - Approve the amendments to assurance levels and definitions for audit opinions and recommendation priorities (**Appendix 2**).

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