

By: Neeta Major, Head of Internal Audit  
To: Governance and Audit Committee – 24 July 2013  
Subject: **INTERNAL AUDIT ANNUAL 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**

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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 2012/13 the opinion is:

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

**Adequate** in relation to the system of internal control and risk management processes i.e. the system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non compliance with some controls that may put system/service objectives at risk.

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

Key themes arising out of the work of Internal Audit is detailed within the Annual Report.

### **Audit Opinions**

4. In July 2012 the Governance & Audit Committee approved changes in the audit opinions and recommendation priorities for the 2012/13 audit programme. As part of the review of Internal Audit's work for 2012-13, we have reviewed these opinions and recommendation priorities and do not propose to change them for the 2013/2014 programme. This will ensure that the Committee and Corporate Management Team can receive assurance as to the direction of travel in relation to sound internal controls, during times of significant change. This will also ensure a consistent basis for the provision of the overall annual Internal Audit opinion. However the opinions and priorities will be annually reviewed to ensure this remains appropriate.

### **Follow up process**

5. No changes are proposed to the follow up process which is detailed in the report.

### **Key Developments**

6. Each year Internal Audit carries out a self assessment against the relevant Internal Audit standards (CIPFA Code of Practice for Internal Audit in Local Government) and compliance is reported within the annual report. From 1 April 2013 there will be a new set of standards to replace the CIPFA Code. They are known as Public Sector Internal Audit Standards and have been issued through a joint collaboration of different public sector standards setters (including CIPFA and the IIA).
7. Grant Thornton has produced a useful summary of the purpose, objectives and changes in the standards. This is attached at Appendix 2. We will include an assessment of conformance against these standards from 13/14 within the annual report.

### **Recommendations**

8. Members are asked to:
  - Note for assurance the internal audit annual report for 2012/2013 (**Appendix 1**)
  - Note the change in relevant standards for Internal Audit (**Appendix 2**).

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