

By: Neeta Major, Head of Internal Audit
To: Governance and Audit Committee – 24 July 2014
Subject: **INTERNAL AUDIT ANNUAL REPORT**
Classification: Unrestricted

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

Introduction and background

1. Public Sector Internal Audit Standards require that the Head of Internal Audit must deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement. This report must:
 - include an opinion on the overall adequacy and effectiveness of the organisation's control environment;
 - present a summary of work that supports the opinion
 - provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Head of Audit Annual Report

2. The Annual Report is attached at Appendix 1.
3. The report supports the Annual Governance Statement by providing my opinion in relation to the internal control environment, risk management processes and corporate governance of the Council. For the year 2013/14 I can provide **Substantial** assurance in relation to **corporate governance, risk management and internal control arrangements** during the year i.e. the arrangements and controls are generally well designed and applied consistently but there are some weaknesses that require management attention.
4. In particular there are some outstanding improvements required to the payments process and controls over and within operations remote from the Council. The Council has been receptive to Internal Audit's recommendations in these areas and actions have commenced to implement these recommendations. Internal Audit will be monitoring this closely in 2014-2015 due to its relevance to the overall assurance opinion going forward.
5. A summary of the work to support the opinion and key themes arising out of the work of Internal Audit is detailed within the Annual Report.

Follow up process

6. No changes are proposed to the follow up process which was detailed in the annual plan reported in April 2014.

Key Developments

7. Each year Internal Audit carries out a self assessment against the relevant Internal Audit standards. From 1 April 2013, new standards known as Public Sector Internal Audit Standards became the applicable standards and this is the second year we have assessed conformance against these standards (in 2012-2013 we did some pre implementation work to identify gaps). We are already mostly compliant with the exception of a couple of newer requirements. This is being addressed through implementation of a Quality Assurance Improvement Programme and an Internal Audit Handbook which will address the minor remaining gaps.
8. It should be noted that the new standards require Internal Audit to commission an independent review of Internal Audit's conformance within five years of the new standards being issued. It is planned that the first independent review will be commissioned in quarter 4 of 2015/2016 and results reported to Governance and Audit Committee.

Recommendations

9. Members are asked to:
 - Note for assurance the internal audit annual report for 2013/2014 (**Appendix 1**).
 - Note the key developments in relation to relevant standards for Internal Audit and the plan to commission an independent review of conformance in 2015/2016.

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