

<b>REPORT TO:</b> <b>Audit Committee</b>	<b>DATE</b> <b>26<sup>th</sup> March 2013</b>	<b>CLASSIFICATION</b> <b>Unrestricted</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>REPORT OF:</b> <b>Corporate Director, Resources</b>		<b>Quarterly Internal Audit Assurance Report</b>		
<b>ORIGINATING OFFICER(S):</b> <b>Head of Risk Management and Audit</b>		<b>Ward(s) Affected:</b> <b>N/A</b>		

## 1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period December 2012 to February 2013.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

## 2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

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**Local Government Act, 1972 SECTION 100D (AS AMENDED)**  
**List of "Background Papers" used in the preparation of this report**

Brief description of "background papers"

N/A

**Contact :**

*Minesh Jani, 0207 364 0738*

### **3. Background**

- 3.1. From April 2005, we have assigned each review one of four ratings, depending upon the level of our findings. The ratings we use are: -

<b>Assurance</b>	<b>Definition</b>
<b>Full</b>	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
<b>Substantial</b>	While there is a basically sound system there are weaknesses which put some of the control objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;
<b>Limited</b>	Weakness in the system of controls are such as to put the system objectives at risk or the level of non-compliance puts the system objectives at risk;
<b>Nil</b>	Control is generally weak leaving the system open to significant error or abuse, or significant non-compliance with basic controls leaves the system open to error or abuse.

- 3.2. In addition, each review is also considered in terms of its significance to the authority in line with the previously agreed methodology. The significance of each auditable area is assigned, based on the following factors: -

<b>Significance</b>	<b>Definition</b>
<b>Extensive</b>	High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m.
<b>Moderate</b>	Medium impact, key systems and / or Scale of Service £1m- £5m.
<b>Low</b>	Low impact service area, Scale of Service below £1m.

### **4. Overall Audit Opinion**

- 4.1. Overall, based on work performed in the year to date, I am able to give a substantial level of assurance over the systems and controls in place within the authority.

### **5. Overview of finalised audits**

- 5.1. Since the last Assurance Report that was presented to the Audit Committee in January 2013, twenty two final reports have been issued. The findings of these audits are presented as follows:

The chart below summarises the assurance rating assigned by the level of significance of each report.

Appendix 1 provides a list of the audits organised by assurance rating and significance.

Appendix 2 provides a brief summary of each audit.

**5.2. Members are invited to consider the following:**

The overall level of assurance provided (para 5.3-5.5).

The findings of individual reports. Audit Committee may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.

**5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2003 and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.**

**Chart 1 Analysis of Assurance Levels**

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	1	10	1	-	12
	Moderate	1	8	1	-	10
	Low	-	-	-	-	-
<b>Total Numbers</b>		<b>2</b>	<b>18</b>	<b>2</b>	<b>-</b>	<b>22</b>
<b>Total %</b>		<b>9%</b>	<b>82%</b>	<b>9%</b>	<b>-</b>	<b>100%</b>

**5.4. From the table above it can be seen that of the twelve finalised audits which focused on high risk or high value areas; one was assigned full assurance, ten were assigned Substantial Assurance and one was assigned Limited assurance. A further ten audits were of moderate significance and of these, one was assigned**

full assurance, eight were assigned Substantial Assurance and one, Limited Assurance. The two audits assigned full assurance, were follow up audits, and the assurance provided was around the implementation of the agreed recommendations.

- 5.5. Overall, 91% of audits resulted in an adequate assurance (substantial or full). The remaining 9% of audits have an inadequate assurance rating (limited or nil).

## **6. Performance Indicators**

- 6.1. At the start of the year, three performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the Chief Executive's Monitoring process. The table below shows the actual and targets for each indicator for the period:

<b>Performance measure</b>	<b>Target</b>	<b>Actual</b>
Percentage of Audit Plan completed up to January 2013	80%	80%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	88% 7 out of 8
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	90% 35 out of 39

The table above shows that the proportion of internal audit work completed to January 2013 is 80% against the target of 80%.

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 88%, whereas the percentage of priority 2 recommendations was 90%. Relevant Corporate Directors were sent copies of the final Follow Up audit reports. Details of all priority 1 and priority 2 recommendations not implemented are set out in Appendix 3. Further to the usual actions, meetings are being convened with key officers to seek assurances that agreed recommendations will be implemented promptly.

## **7. Comments of the Chief Financial Officer**

- 7.1. These are contained within the body of this report.

## **8. Concurrent Report of the Assistant Chief Executive (Legal Services)**

- 8.1 The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

## **9. One Tower Hamlets**

- 9.1. There are no specific one Tower Hamlets considerations.
- 9.2. There are no specific Anti-Poverty issues arising from this report.

## **10. Risk Management Implications**

- 10.1. This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

## **11. Sustainable Action for a Greener Environment (SAGE)**

- 11.1. There are no specific SAGE implications.