

REPORT TO: Audit Committee	DATE 17 December 2013	CLASSIFICATION Unrestricted	REPORT NO.
REPORT OF: Corporate Director, Resources		Quarterly Internal Audit Assurance Report	
ORIGINATING OFFICER(S): Head of Risk Management and Audit		Ward(s) Affected: N/A	

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period September to November 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.

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: -

Assurance	Definition
Full	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
Substantial	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;
Limited	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;
Nil	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: -

Significance	Definition
Extensive	High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m.
Moderate	Medium impact, key systems and / or Scale of Service £1m- £5m.
Low	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 September 2013, fifteen 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. The 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 20011 and the Public Sector Internal Audit Standards 2013.

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	1	6	3	-	10
	Moderate	-	5	-	-	5
	Low	-	-	-	-	-
Total Numbers		1	11	3	-	15
Total %		7%	73%	20%	-	100%

- 5.4. From the table above it can be seen that of the ten finalised audits which focused on high risk or high value areas; one was assigned Full assurance, six were assigned Substantial Assurance and three were assigned Limited assurance. A further five audits were of moderate significance and all of these were assigned Substantial Assurance.
- 5.5. Overall, 80% of audits resulted in an adequate assurance (substantial or full). The remaining 20% 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:-

Performance measure	Target	Actual
Percentage of Audit Plan completed up to October 2013	53%	47%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	20% 1 out of 5
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	100% 4 out of 4

The table above shows that the proportion of internal audit work completed to October 2013 is below target. This is due to some of the audits scheduled for quarters one and two have not progressed as planned due to requests from management to defer audits until the third and fourth quarters of the financial year. Revised quarterly plans have now been put in place so that planned audits are completed in time.

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 20%, whereas the percentage of priority 2 recommendations was 100%. The performance for priority 1 recommendations was entirely due to one audit viz. the follow up on Management and Control of Probationary Tenancies, where four out of 5 recommendations were not implemented. Details of all priority 1 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. There are no specific financial implications emanating from this report. The Internal Audit team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

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)

There are no specific SAGE implications