

REPORT TO: <b>Audit Committee</b>	DATE <b>18 March 2014</b>	CLASSIFICATION <b>Unrestricted</b>	REPORT NO.
REPORT OF: <b>Corporate Director, Resources</b>		<b>Quarterly Assurance Report</b>	
ORIGINATING OFFICER(S): <b>Head of Risk Management and Audit</b>		Ward(s) Affected: <b>N/A</b>	

## 1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period December 2013 to February 2014.
- 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 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.

## 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
<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 December 2013, eighteen 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 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 2005 and the 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector.

(Please refer to the table on the next page).

**Chart 1 Analysis of Assurance Levels**

<b>SUMMARY</b>		<b>Assurance</b>				
		Full	Substantial	Limited	Nil	Total
<b>Significance</b>	Extensive	-	6	2	-	8
	Moderate	-	8	2	-	10
	Low	-	-	-	-	-
<b>Total Numbers</b>		-	<b>14</b>	<b>4</b>	-	<b>18</b>
<b>Total %</b>		-	<b>78%</b>	<b>22%</b>	-	<b>100%</b>

- 5.4. From the table above it can be seen that of the eighteen finalised audits which focused on high risk or high value areas; six were assigned Substantial Assurance and two were assigned Limited assurance. A further ten audits were of moderate significance and of these eight were assigned Substantial Assurance and two were assigned Limited Assurance.
- 5.5. Overall, 78% of audits resulted in an adequate assurance (substantial or full). The remaining 22% 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 2014	80%	74%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	33% 1 out of 3
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	78% 18 out of 23

The table above shows that the proportion of internal audit work completed to January 2014 is below target. This is due to some audits scheduled for the first three quarters being postponed to the fourth quarter of the financial year following management requests. Revised quarterly plans have now been put in place so that audits are completed to draft report by the time of the next audit committee. To facilitate this, all audits have been scheduled in and opening meetings and terms agreed with Service Heads for all outstanding audits.

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 33%, whereas the percentage of priority 2 recommendations was 78%. Details of all priority 1 and 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 This is a quarterly noting report and thus there are no specific financial implications arising from the contents of this report.

## **8. Legal Comments**

- 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 Considerations**

- 9.1 Each audit activity within the audit plan provides a link with the Council's corporate and strategic plan priorities including that of One Tower Hamlets.

**10. Anti-Poverty Considerations**

- 10.1 There are no specific Anti-Poverty issues arising from this report.