

**AUDIT COMMITTEE REPORT ANNUAL TEMPLATE**

**COUNTY GOVERNMENT OF \_\_\_\_\_**

**INTERNAL AUDIT ANNUAL REPORT 20XX/20XX**

**Submitted by:**

XXXXXX

Head of Internal Audit

## 1. Background

In the Financial Year 20XX/20XX the Internal Audit division undertook a review of various areas of operations within the County. The audit areas were prioritized in the Audit Annual Work Plan as a result of the Internal Audit unit's risk assessment conducted for the County operations. Internal Audit undertook its work in accordance with professional obligations as set out in the Public Finance Management Act, 2012 and its Regulations of 2015 as well as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. Follow up on the implementation status of Board Audit Committee Resolutions on prior audit issues also forms part of this report.

As per the International Standards for the professional Practice for Internal Auditing (Standard 2130), the internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

This report provides the Head of Internal Audit overall opinion as per (Standard 2450) on the system of internal control and summarizes audit work from which that opinion is derived for the year ending 30 June 20XX.

The opinion is based on:

- The work carried out by Internal Audit during the financial year;
- The assurances made available by external assessors and similar providers;
- The risk or control framework or other criteria used as a basis for the overall opinion; and
- The scope limitation.

The report also provides information on:

- The delivery of the annual audit plan;
- Audit reports issued and issues of concern;
- Implementation of agreed actions; and
- Internal Audit's performance.

## 2. Overall Opinion

The report concludes that the entity's framework of governance, risk management and management control is '**Adequate**''**Satisfactory**'. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

## 2.1. Audit Opinion Grading

The following are grading examples that may be applied in relation to audit opinions. For all of these, it is important to clarify context; that is, opinion relative to the entity as whole (macro) versus an individual audit review of a particular subject or process (micro). It will be important to have a risk ranking process and methodology in place when formulating these opinions.

## 2.2. Three (3) Tier Grading

- I. **Inadequate System of Internal Control** - Findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
- II. **Adequate System of Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
- III. **Adequate/Satisfactory System of Internal Control** - Findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended.

## 2.3. Four (4) Tier Grading

|                          |   |
|--------------------------|---|
| Effective                | Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.  |
| Some Improvement Needed  | A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. |
| Major Improvement Needed | Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.   |
| Unsatisfactory           | Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.   |

## 2.4. Qualification to the opinion

Internal Audit has had unrestricted access to all areas and systems across the entity, and has received appropriate co-operation from officers and members.

## 2.5. Recommendations:

That the Audit Committee approves the HIA's Annual Report and Opinion for 20XX/20XX.

## 2.6. Reasons for report recommendation

The Audit Committee's attention is drawn to the following points:

- Internal audit was compliant with the International Standards for the professional Practice for Internal Auditing;
- The revised internal audit plan for 20XX/20XX has been substantially delivered;
- The entity's framework of governance, risk management and management control is considered to be '**Adequate**'; however, some weaknesses have been identified through internal audit's work or evidence was found that the framework may not be consistently applied;
- Where our work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed; appropriate corrective actions and a timescale for improvement were agreed with the responsible head of departments.

Name :.....

Head of internal audit

### 3. Delivery of the Annual Work Plan

The Internal Audit Plan was approved by Audit Committee on 10<sup>th</sup> February 20XX in respect of the year ending July 20XX.

The following internal audit reports have been issued (draft or final) during the period 1 July 20XX to 30 June 20XX.

| Report title | Draft / Final | Date issued |
|--------------|---------------|-------------|
|              |               |             |
|              |               |             |

In addition to the reports listed above, a substantial amount of work has been undertaken in the following special audit assignments:

- Financial audit covering the period
- Procurement audit covering the period

#### 3.1. Other work

In addition to the completion of the above reviews Internal Audit has been involved in work in a number of other areas where a formal audit report is not the end product however significant audit resource is used.

#### 3.2. Work completed by other assurance providers

The Office of the Auditor General undertook a Financial Audit for Financial Year 20XX/20XX and the following key issues were raised:

| Audit Area | Audit Finding | Risks Rating | Action Plan |
|------------|---------------|--------------|-------------|
|            |               |              |             |

### 4. Key Findings

The reviews where key themes or areas for improvement were identified have been set out below. Addressing these areas for improvement will help to further strengthen the County's governance arrangements and control environment.

| <b>Audit Area</b>         | <b>Audit Finding</b> | <b>Risks Rating</b> | <b>Action Plan</b> |
|---------------------------|----------------------|---------------------|--------------------|
| Procurement               |                      |                     |                    |
| Human Resource Management |                      |                     |                    |

## 5. Key Risks

Every public entity needs to have a well-established and systematic risk management framework in place to identify and mitigate the many risks it may face. Individual Internal Audit reports deal with the specific risk issues that arise from the findings of the audit. These are translated into mitigating actions and timetables which are then monitored on a risk basis to ensure closure. Risks may be extended where such recommendation are not followed. This report forms a part of that risk management and governance process.

## 6. Follow Up activities

Management has responsibility for ensuring that recommendations arising from individual reviews are implemented. Recommendations are followed up to ensure they have been implemented, and this is achieved either by review as part of the following years audit if one is undertaken, or as part of a specific follow up review.

Management action plans to correct previously reported deficiencies are followed up quarterly for *unsatisfactory* rated engagements, and annually for those rated *need improvement*, with status of overdue action plans provided in Internal audit quarterly activity reports.

For the financial year 20XX/20XX there were a total of 52 recommendations contained in the audit reports issued. To date 50 (96%) of the recommendations have either been implemented, or replaced by recommendations arising from more recent audit reviews.

There are no high priority recommendations outstanding.

| Source of recommendation | Open recommendations | Recommendations added in the period | Recommendations recorded as implemented during the period. | Recommendations in progress |
|--------------------------|----------------------|-------------------------------------|--|-----------------------------|
| Internal audit           |                      |                                     |  |                             |
| External audit           |                      |                                     |  |                             |
| Others (specify)         |                      |                                     |  |                             |

Work is presently underway to review the implementation of the recommendations arising from the audits carried out in 2013/14. Progress will be reported to this Committee as part of the reporting on the work of Internal Audit.

## **7. Internal Audit Performance**

### **7.1. Conformance with International Standards**

The International Standards for the Professional Practice of Internal Auditing require that the internal audit function implement a quality assurance and improvement program to demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards and to communicate the results at least annually. Disclosure should include:

- I. The scope and frequency of both the internal and external assessments.
- II. The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- III. Conclusions of assessors.
- IV. Corrective action plans.

The internal audit unit **partially conformed** to the standards.

**Definition of Partially Conforms.** The internal audit unit is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. There are some significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives.

- I. Adequacy of the internal audit (IA) activity's charter, goals, objectives, policies, and procedures.
- II. Contribution to the entity's risk management, governance, and control processes.
- III. Compliance with applicable laws, regulations, and government or industry standards.
- IV. Effectiveness of continuous improvement activities and adoption of successful practices.
- V. Whether the IA activity adds value and improves the entity's operations.

### **7.2. Internal Audit Independence**

The Head of Internal Audit reports functionally to the Audit Committee and maintains organizational independence. He has had no constraints placed upon him in respect of determining overall audit coverage, audit methodology, the delivery of the audit plan or proposing actions for improvement or forming opinions on individual audit reports issued.

### **7.3. Annual Risk Assessment Process**

Internal Audit utilized input from audit committee and senior management, auditor judgment, and historical data and identified the auditable units to be included in the risk assessment. The units were ranked based on five risk factors which included the safety and welfare of the youth, safety and welfare of the staff, staff turnover, impact on communities, and recent and/or significant changes. Each unit's risk factor was scored on a five point scale with low risks being one, medium risks being three, and high risks receiving five points. The units were ranked and a distribution level obtained to identify the high risks for the agency. After consideration of statutorily required audit work and audit history, consideration for leave, training requirements, and other responsibilities

### 7.3.1. Audit universe coverage

At the beginning of the audit process auditable activities and processes were identified and mapped to the organization structure and internal control systems to create audit universe.

### 7.3.2. Adequacy of Resources

The Head of Internal Audit reports whether the internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan and reports on impact of resource limitations.

### 7.4. Performance Measurement Indicators

The Head of Internal audit reports Internal Audit performance based on the sampled metrics:

#### 7.4.1. Customer satisfaction

Target: 85% or more of customers rating service quality as good or better.

Achieved: Include results of customer satisfaction surveys.

#### 7.4.2. Service delivery targets

Target: The service delivery targets are achieved.

There are four elements to this target which all relate to the progress of individual audits and the reporting process.

| Activity   | Target | Achieved |
|--|--------|----------|
| Complete fieldwork by date in notification letter.   | 75%    |          |
| Issue draft audit report within 15 working days of completing fieldwork.   | 90%    |          |
| Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report. | 75%    |          |
| Issue final audit report within 5 working days of receiving full response  | 90%    |          |

#### 7.4.3. Audit related activities

|                                | Actual | Target | Variance |
|--------------------------------|--------|--------|----------|
| Audit Strategy & Planning      |        |        |          |
| Annual Report                  |        |        |          |
| Managing the External auditors |        |        |          |

|  |  |  |  |
|--|--|--|--|
| Clearance of audit reports with management   |  |  |  |
| Assistance to Schools & Directorates         |  |  |  |
| Attendance & Preparation for Audit Committee |  |  |  |
| Liaison with External Reviewers              |  |  |  |

**7.5. Trainings**

Essential for the continued professional development, and in accordance with its approved training policy, to ensure each staff member possesses and improves knowledge, skills and other competencies needed to perform their individual responsibilities, with a view to continuously improving the quality of oversight work undertaken, the table below summarizes the trainings undertaken:

| Name of training | Duration | Number trained |
|------------------|----------|----------------|
|                  |          |                |
|                  |          |                |

**8. Conclusion**

As with previous financial years, Internal Audit continues to provide significant assurance that overall the systems of internal control within the County are operating satisfactorily and that management is taking appropriate action to implement the improvements recommended as a result of individual audit reviews.