

REPORT TO: **AUDIT AND STANDARDS COMMITTEE**

DATE: **13 JUNE 2018**

TITLE: **INTERNAL AUDIT ANNUAL REPORT
2017/18**

LEAD OFFICER: **SARAH MARSH, INTERNAL AUDIT
MANAGER (01279) 446884**

RECOMMENDED that:

- A** Having considered the content of this report, agrees that, for the 12 months ended 31 March 2018, the Council has operated an adequate and effective governance, risk management arrangements and control processes.

1. INTRODUCTION

This document summarises the results of internal audit work during 2017/18 and, as required by the Accounts and Audit (England) Regulations 2015, gives an overall opinion of the Council's governance, risk management and control framework.

2. OVERALL OPINION

The Internal Audit Manager is required to provide the Council and the Managing Director with a statement on the adequacy and effectiveness of the organisation's risk management, control and governance processes.

In giving an opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is a reasonable assurance there are no major weaknesses in the Council's risk management, control and governance processes.

In assessing the level of assurance to be given, the Internal Audit Manager has taken into account:

- All reviews completed during the year.
- Any follow up actions taken in respect of audits from previous periods.
- High priority recommendations not accepted by management or acted upon (there were none) and any associated risks.
- The effect of any significant changes in the Council's objectives, activities or systems.
- Matters arising from previous reports to the Audit and Standards Committee.
- Whether any limitations have been placed on the scope of Internal Audit (there have not been any).

- The extent to which resources constraints may impinge upon the Internal Audit Manager's ability to meet the full audit needs of the Council (there have been none).
- What proportion of the Council's audit need has been covered to date; and
- The results of work performed by other assurance providers including the work of the External Auditors.

The Internal Audit Manager is satisfied that sufficient internal audit work has been undertaken to allow a reasonable conclusion as to the adequacy and effectiveness (or inadequacy and ineffectiveness) of the Council's risk management, control and governance processes to be drawn.

Based upon the results of work undertaken during the year, it is the Internal Audit Manager's overall opinion that the Council has in place adequate and effective governance, risk management arrangements and control processes. Where there have been significant issues these have been accepted by Management and promptly corrected.

3. BACKGROUND

This report outlines the work undertaken by Internal Audit during the 2017/18 year and covering the period 1 April 2017 to 31 March 2018.

Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. On behalf of the Council, Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of these arrangements.

Internal Audit is required by professional standards to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The primary role of Internal Audit is to provide assurance to the Council (management, Heads of Service and the Audit and Standards Committee) and ultimately the taxpayers that the Council maintains an effective control environment that enables it to manage its significant organisational risks.

Internal Audit helps the Council achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Council's control environment which feeds into the Annual Governance Statement.

4. INTERNAL AUDIT WORK DURING 2017/18

The 2017/18 Internal Audit Plan was presented to and agreed by the Audit and Standards Committee in March 2016. The plan was prepared based on the risks associated with the Council's objectives in consultation with key officers and took into account:

- Knowledge and experience accumulated in Internal Audit, including the results of previous reviews.
- A review of audit themes against the Corporate risk register and Council priorities.
- The work of other assurance providers both internally and externally.
- The external environment including economic climate, government initiatives such as welfare reform and changes in funding.
- Harmonisation of themes with Borough of Broxbourne Council and Epping Forest District Council to enable benchmarking and sharing of good practice.

The plan was designed to allow sufficient audit coverage to support the overall opinion for the Council and whilst there were some variations to the plan during the year, which were reported and approved by the Audit and Standards Committee, there has still been sufficient internal audit coverage in order to give this opinion.

At the end of each assurance review a report is issued giving a formal audit assurance rating. This rating is based on an assessment of the key management arrangements and internal controls in place and measured using the following scale:

- 'Substantial' assurance – Overall, there is a sound system of control. Any weaknesses which put system/service objectives at risk will be minor and does not lead the Council to significant risk exposure.
- 'Moderate' assurance - Basically sound control, with areas of weakness, which put system/service objectives at risk. (Any high priority recommendations will prevent this level of assessment).
- 'Limited' assurance – There are significant weaknesses in more than one key control area, which could put system/service objectives or the Council at risk.
- 'No' assurance – There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk.

5. SUMMARY OF ASSURANCE WORK

A total of eight audit reports were issued as part of the 2017/18 Plan, with all of these being assurance reviews. Two reports were given Substantial Assurance ratings. Six reports were given Moderate assurance and these tend to relate to a specific area rather than represent a breakdown of controls across the Council. Importantly none of the reports were given Limited assurance. The table below provides a comparison between the 2017/18 and previous two financial years:

Assurance rating	2017/18	2016/17	2015/16
Substantial	2	7	9
Moderate	6	6	4
Limited	0	1	1
No	0	0	0
TOTAL	8	14	14

Whilst the table highlights that the number of reports issued has decreased when compared with the previous two years this has been as a result of Internal Audit undertaking more advisory work during 2017/18 than originally anticipated. It is not an indication that the Council's control framework has deteriorated.

Appendix A sets out work carried out by Internal Audit during the year in narrative form and compares this to the original plan agreed by Audit and Standards Committee in March 2017. This summary includes individual audit reviews, consultancy and advice and other internal audit engagement activities with the Council.

It is important that the work of Internal Audit is aligned with the strategies, objectives and risks of the organisation. This is set out in the Audit Strategy and Audit Plan which the Audit and Standards Committee receive each March. Appendix B lists the individual audit reports issued as part of the 2017/18 Plan with their assurance rating and number of recommendations made by risk priority.

Tracker process

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. Recommendation categories are linked to risk and, in order of priority, are rated 'high, 'medium and 'low.

Reports on progress of the management implementation of agreed recommendations are actively monitored by the Senior Management Board. The Audit and Standards Committee receives a report of all overdue recommendations plus any fundamental recommendations from final reports issued, regardless whether they are overdue or not.

The process continues to work well and there are no significant issues to

report regarding the implementation of audit recommendations. The Audit and Standards Committee sought its own assurances where there have been any concerns during the year.

Other Sources of Assurance

The opinion given in this annual report does not rely solely on the formal audits undertaken by the section.

Special investigations: Internal Audit investigates any allegations of fraud and suspected irregularity. There are separate arrangements for reporting, investigating and dealing with benefits fraud. A record is maintained of all reported and alleged fraud and theft with a summary reported annually to the Audit and Standards Committee. For 2017/18 there were no significant (estimated at more than £10,000) investigations by Internal Audit into suspected fraud.

Advice: Internal Audit is most effective when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems. This includes Internal Audit sitting on key business groups which in 2017/18 included:

- Corporate Governance Group.
- IT Operations Board.
- Agresso upgrade project group.
- InPhase project group.
- General Data Protection Regulations project group.

In addition, Internal Audit raises awareness of control issues throughout the Council particularly through the update of key governance documents and the co-ordination and analysis of service assurance statements which feeds into the Annual Governance Statement.

Anti-Fraud and Corruption work: Harlow Council participates in the National Fraud Initiative which is a data matching exercise run annually by the Cabinet Office. The exercise seeks to identify fraud spanning public bodies and Internal Audit is the key point of contact and facilitates and supports the Council's involvement.

Internal Audit continues to be an active member of the Corporate Fraud Group, sharing good practice seen elsewhere and recently updated the Council's anti-fraud and corruption strategy which was approved at the November 2017 Audit and Standards Committee.

6. EFFECTIVENESS

In line with good practice, the Internal Audit service should on an annual basis ensure it is compliant with the Public Sector Internal Audit Standards (PSIAS), which were last updated in 2017, notifying the Audit and Standards

Committee of any areas of non-compliance. The main change to the PSIAS in April 2017 was guidance on the Head of Internal Audit's role beyond Internal Auditing. This is because those officers responsible for the management and delivery of the internal audit function and annual audit plan may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities.

In November 2016 the service was confirmed as being fully compliant with the PSIAS by an external assessor. This remains to be the case as there have been no significant changes in the way the Internal Audit service is delivered or operates, and the Internal Audit Manager has not taken on any additional responsibilities.

The regular progress reports presented to the Audit and Standards Committee provide Members with the opportunity to monitor Internal Audit's output and effectiveness. Feedback on the implementation of recommendations also provides evidence of the degree of influence Internal Audit has on changes to strengthen the control framework for the Council.

Performance indicators are in place to monitor service performance and reported at each Audit and Standards Committee with a summary for the year presented below with a comparison with last years' results:

Aspect of Service	Performance Indicator	Target	17/18 Year End	16/17 Year End
Audit Plan	<ul style="list-style-type: none"> Achievement of the annual Plan 	<ul style="list-style-type: none"> 95% 	<ul style="list-style-type: none"> 88%* 	<ul style="list-style-type: none"> 89%*
Internal Audit processes	<ul style="list-style-type: none"> Issue of draft report after closing meeting 	<ul style="list-style-type: none"> 10 working days 	<ul style="list-style-type: none"> 4 days ** 	<ul style="list-style-type: none"> 8 days
	<ul style="list-style-type: none"> Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> 5 working days 	<ul style="list-style-type: none"> 5 days 	<ul style="list-style-type: none"> 3 days
Effective management engagement	<ul style="list-style-type: none"> Management responses within 10 working days of draft report 	<ul style="list-style-type: none"> 10 working days 	<ul style="list-style-type: none"> 11 days 	<ul style="list-style-type: none"> 29 days
	<ul style="list-style-type: none"> Implementation of agreed audit recommendations 	<ul style="list-style-type: none"> Within agreed timescales 	<ul style="list-style-type: none"> Largely met (as reported by tracker) 	<ul style="list-style-type: none"> Largely met (as reported by tracker)

* These figures are based on the amended audit plan as approved by the Audit and Standards Committee. Other audit work carried out includes participation on project and business groups which is difficult to quantify in terms of audit plan coverage.

** This figure does not include one report issued by an outsourced provider as it took them over a month to issue the draft report because of staffing issues their end.

Internal Audit staff participate in Continuous Professional Development including keeping abreast of best professional practice. Members of the Internal Audit team participate in various networking groups including the Essex Audit Group, the Midland Audit Group and the London Audit Group, where speakers on topical issues give presentations. There are also close working relationships with other councils.

IMPLICATIONS

Place (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Place**

Finance (includes ICT)

The results of this report and the Internal Audit Manager's overall opinion provide sources of assurance for the Annual Governance Statement.

Author: **Simon Freeman, Head of Finance**

Housing

None specific.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

Governance

The review ensures that the Council fulfils the requirements of the Accounts & Audit Regulations (England) 2015.

Author: **Amanda Julian, Legal Services Manager**

Background Papers

NB: There are papers referred to in the preparation of the report that are not attached as appendices but that are available for public or Councillor study.

Public Sector Internal Auditing Standards (PSIAS) 2017
Accounts and Audit Regulations (England) 2015

Appendices

Appendix A – Internal Audit 2017/18 Outcomes
Appendix B – Audit Report Monitoring 2017/18