

REPORT TO: **AUDIT AND STANDARDS COMMITTEE**

DATE: **12 JUNE 2019**

TITLE: **INTERNAL AUDIT ANNUAL REPORT 2018/19**

LEAD OFFICER: **SARAH MARSH, INTERNAL AUDIT MANAGER
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RECOMMENDED that:

The Internal Audit Annual report and the Internal Audit Manager's opinion be noted and is considered in conjunction with the Annual Governance Statement 2018/19.

BACKGROUND

1. This document summarises the results of internal audit work during 2018/19 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. 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.
3. 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.
4. In assessing the level of assurance to be given, the Internal Audit Manager has taken into account:
 - a) All reviews completed during the year
 - b) Any follow up actions taken in respect of audits from previous periods
 - c) High priority recommendations not accepted by management or acted upon (there were none) and any associated risks
 - d) The effect of any significant changes in the Council's objectives, activities or systems
 - e) Matters arising from previous reports to the Audit and Standards Committee
 - f) Whether any limitations have been placed on the scope of Internal Audit (there have not been any)
 - g) 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)

- h) What proportion of the Council's audit need has been covered to date
 - i) The results of work performed by other assurance providers including the work of the External Auditors
5. 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.
 6. 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.
 7. This report outlines the work undertaken by Internal Audit during the 2018/19 year and covering the period 1 April 2018 to 31 March 2019.
 8. 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.
 9. 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:
 - a) the opinion
 - b) a summary of the work that supports the opinion
 - c) a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
 10. 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.

Internal Audit Work During 2018/19

11. The 2018/19 Internal Audit Plan was presented to and agreed by the Audit and Standards Committee in March 2018. The plan was prepared based on the risks associated with the Council's objectives in consultation with key officers and took into account:
 - a) knowledge and experience accumulated in Internal Audit, including the results of previous reviews
 - b) a review of audit themes against the Corporate risk register and Council priorities
 - c) the work of other assurance providers both internally and externally
 - d) the external environment including economic climate, government initiatives such as welfare reform and changes in funding
 - e) harmonisation of themes with Borough of Broxbourne Council and Epping Forest District Council to enable benchmarking and sharing of good practice.
12. 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.
13. 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:
 - a) '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
 - b) '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)
 - c) 'Limited' assurance – There are significant weaknesses in more than one key control area, which could put system/service objectives or the Council at risk
 - d) 'No' assurance – There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk.

Summary of Assurance Work

14. A total of 12 audit reports were issued as part of the 2018/19 Plan, with all of these being assurance reviews. The moderate and limited assurance reports these tend to relate to a specific area rather than represent a breakdown of controls across the Council. The table below provides a comparison between the 2018/19 and previous three financial years:

Table 1: Assurance Report Comparison

Assurance rating	2018/19	2017/18	2016/17	2015/16
Substantial	6	2	7	9
Moderate	4	6	6	4
Limited	2	0	1	1
No	0	0	0	0
TOTAL	12	8	14	14

15. The number of reports issued in 2017/18 has decreased when compared with other years and was 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.

16. 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 2018. This summary includes individual audit reviews, investigations, consultancy and advice and other internal audit engagement activities with the Council.

17. 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 2018/19 Plan with their assurance rating and number of recommendations made by risk priority.

Tracker Progress

18. 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'.

19. 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.

20. The process continues to work well and there are no significant issues to report regarding the implementation of audit recommendations.

Other Sources of Assurance

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

22. 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 2018/19 there were no significant (estimated at more than £10,000) investigations by Internal Audit into suspected fraud.

23. 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 2018/19 included:

- a) Corporate Governance Group
- b) IT Operations Board
- c) Information Governance Group

24. 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.

25. 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.

26. Internal Audit continues to be an active member of the Corporate Fraud Group, sharing good practice seen elsewhere and helping to deliver anti-fraud initiatives which supports the Council's anti-fraud and corruption strategy which was approved at the November 2018 Audit and Standards Committee.

Effectiveness

27. In line with good practice, the Internal Audit service should on an annual basis ensure it is compliant with the 2017 Public Sector Internal Audit Standards

(PSIAS), notifying the Audit and Standards Committee of any areas of non-compliance.

28. Following an external assessment the service was confirmed as fully compliant in November 2016 and this is still 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 that could compromise the service's independence and objectivity.

29. 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. The amount of time to obtain management responses has been brought to Senior Management Board's attention:

Table 2: Performance Indicator Summary

Aspect of Service	Performance Indicator	Target	Year End 2018/19	Year End 2017/18
Audit Plan	<ul style="list-style-type: none"> Achievement of the annual Plan 	<ul style="list-style-type: none"> Sufficient internal audit work in order that the Internal Audit Manager can give their annual opinion. 	<ul style="list-style-type: none"> Achieved 	<ul style="list-style-type: none"> Achieved
Internal Audit processes	<ul style="list-style-type: none"> Issue of draft report after closing meeting 	<ul style="list-style-type: none"> Within 10 working days 	<ul style="list-style-type: none"> 6 days 	<ul style="list-style-type: none"> 4 days
	<ul style="list-style-type: none"> Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> Within 5 working days 	<ul style="list-style-type: none"> 4 days 	<ul style="list-style-type: none"> 5 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"> 19 days * 	<ul style="list-style-type: none"> 11 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)
Continuous	<ul style="list-style-type: none"> Auditors 	<ul style="list-style-type: none"> 40 hours of 	<ul style="list-style-type: none"> Target for 	<ul style="list-style-type: none"> Not

Professional Development (CPD)	maintain and improve their knowledge, skills and other competencies through directed and self-directed activities	CPD activity per auditor	2018/19 achieved.	reported, as new PI for 2018/19
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* The reason for the increase is due to delays because of the Christmas break and managers agreeing a suitable resolution with Internal Audit for the more complex or wider reaching recommendations.

30. 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: Jane Greer, Head of Community Wellbeing on behalf of 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 and Deputy to the Managing Director**

Housing

None specific.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

None specific.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

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

Author: Simon Hill, Head of Governance

Appendices

Appendix A – Internal Audit 2018/19 Outcomes
Appendix B – Audit Report Monitoring 2018/19

Background Papers

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

Glossary/abbreviations used

None