

## MIDDLESBROUGH COUNCIL

### COMMITTEE REPORT

#### CORPORATE AFFAIRS AND AUDIT

30 June 2016

#### Internal Audit – Annual Report of Internal Audit

#### Helen Fowler – Audit and Assurance Manager

#### PURPOSE OF REPORT

1. The annual report from Internal Audit provides a summary of the internal audit work performed in the year 2015/16 and expresses an opinion on the overall internal control environment in place within Middlesbrough Council.
2. The annual report also considers the internal audit performance outturn for 2015/16 and the performance of Tees Valley Audit & Assurance Services against the Public Sector Internal Auditing Standards (PSIAS).

#### BACKGROUND

3. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
4. The Council's internal audit service is provided by Tees Valley Audit & Assurance Services, a shared service arrangement with Redcar and Cleveland Council. A shared service agreement has been documented between the two councils and includes a number of performance measures. The final outturn against the agreed performance measures is detailed in the Audit and Assurance Manager's annual assessment report which is **Appendix 1** to this report.
5. Members of the Audit and Governance Committee approved the 2015/16 Audit Plan at their meeting in June 2015. The total number of planned audit days for 2015/16 was 1118 days (2014/2015 - 994).
6. The work carried out by TVAAS is aimed at providing assurance to the Council's senior officers, elected members and members of the public that the key risks faced by the Council are being managed effectively and that appropriate safeguards are in place for public funds and assets. It contains audits to ensure that sufficient work is undertaken to enable the production of an opinion as to the

adequacy and effectiveness of the Council’s governance, risk and internal control arrangements.

7. Internal Audit, along with other assurance processes of the Council, have a statutory obligation under the Accounts and Audit (Amendment) (England) Regulations 2015 to provide assurance from the work they undertake in respect to the internal control systems operating within the Council.

## OVERALL AUDIT OPINION 2015/2016

8. TVAAS undertakes its programme of work in accordance with the standards set out in the PSIAS. Standard 2450 states that the Council’s chief audit executive should provide an annual internal audit opinion and report on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The overall opinion of the Audit and Assurance Manager on the controls operating in the Council, based on the audit work performed and the audit reports issued (as detailed in **Appendix 1**) is that they provide **Moderate Assurance**.
9. The overall level of Moderate assurance is based on the individual opinions of the internal audit reports issued from the 2015/16 audit plan. The TVAAS opinion methodology provides five possible levels of assurance – Strong, Good, Moderate, cause for Concern and Cause for Significant Concern. A comparison between 2015/16 and 2014/15 is set out in the table below. The opinion takes into account that assurance can be obtained by the number of reports where the overall opinion is Strong or Good. However, the opinion for 2015/16 has been assessed as Moderate because of a) the higher number of reports issued with a Cause for Concern during 2015/16 and b) the significance to the Council’s overall governance and control environment of those areas where a Cause for Concern opinion has been identified i.e. key governance areas.

	2015/16	2014/15
Strong reports – Final (excluding individual schools)	8 (4)	8 (3)
Strong reports – Draft	7	0
Good reports – Final (excluding individual schools)	11 (3)	7 -
Good reports - Draft	3	2
Moderate reports – Final (excluding individual schools)	4	10
Moderate reports - Draft	3	2
Cause for Concern reports – Final (excluding schools)	5 -	1 (1)
Cause for Concern reports - Draft	4	1

	<b>2015/16</b>	<b>2014/15</b>
Cause for Significant Concern reports - Final	0	0
Cause for Significant Concern reports - Draft	0	0
Total Recommendations made - Final	108	105
Number of Priority 1 Recommendations	1	2 (draft report)
Number of reports (final and draft)	45 (38 excluding schools) (plus 1 report where opinion has yet to be confirmed)	31 (27 excluding schools) (plus 4 reports where opinion had yet to be confirmed – later confirmed as 3 Good and 1 Moderate)
% Strong (figures in brackets exclude schools)	33% (29%)	26% (19%)
% Good	31% (29%)	29% (33%)
% Moderate	16% (18%)	39% (44%)
% Cause for Concern	20% (24%)	6% (4%)
% Cause for Significant Concern	0%	0%
Issued after annual report		3 Goods and 1 Moderate. All other drafts at time of annual report were issued with same opinion at final.

## FINANCIAL CONSIDERATIONS

10. Redcar & Cleveland Council charges Middlesbrough Council for the provision of an internal audit service. Charges are based on a daily charge rate linked to the grade of staff involved in the audit work.

## FINANCIAL, LEGAL AND WARD IMPLICATIONS

11. There are no specific financial or ward implications arising from the Internal Audit Annual Report.

## RECOMMENDATIONS

12. That Members note and comment on the annual report of the Audit and Assurance Manager as set out in **Appendix 1** to this report and identify any areas where additional audit assurance is required by the Committee.

## REASONS

13. The work of TVAAS is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards. In accordance with the Standards, the

Audit and Assurance Manager is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.

14. Internal audit work is designed to provide the Corporate Affairs and Audit Committee, senior officers and members of the public with assurance that the Council's framework of internal control is adequate and effective and thereby supports the Committee's review of the Annual Governance Statement. It is aimed at providing assurance that the key risks faced by the Council are being managed effectively and that appropriate safeguards are in place for public funds and assets.

## **BACKGROUND PAPERS**

15. No background papers other than published works were used in writing this report.

## **AUTHOR**

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