

MIDDLESBROUGH COUNCIL

COMMITTEE REPORT

CORPORATE AFFAIRS AND AUDIT

29 June 2017

Internal Audit – Draft Annual Report of Internal Audit

Helen Fowler – Audit and Assurance Manager

PURPOSE OF REPORT

1. The draft annual report from Internal Audit provides a summary of the internal audit work performed in the year 2016/17 and expresses an opinion on the overall internal control environment in place within Middlesbrough Council.
2. The draft annual report also considers the internal audit performance outturn for 2016/17 and the performance of Tees Valley Audit & Assurance Services against the Public Sector Internal Auditing Standards (PSIAS).
3. The final version of the annual report will be presented to this Committee in September 2017.

BACKGROUND

4. 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.
5. 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 current 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.
6. Members of the Audit and Governance Committee approved the 2016/17 Audit Plan at their meeting on 30 June 2016. The total number of planned audit days for 2016/17 was 855 days (2015/2016 - 1118).
7. 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.

8. 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 2016/2017

9. 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 provisional 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 **Good Assurance**.
10. The overall level of Good assurance is based on the individual opinions of the internal audit reports issued from the 2016/17 audit plan and other audit investigations. The TVAAS opinion methodology provides five possible levels of assurance – Strong, Good, Moderate, cause for Concern and Cause for Significant Concern.
11. The opinion takes into account that assurance can be obtained by the number of reports where the overall opinion is Strong or Good. In addition, the Council has addressed a large number of internal audit actions over the last year or two. For the year 2015/16, approximately 155 internal audit recommendations were made of which only 6 were not subsequently implemented during 2016/17. None of the 6 outstanding actions are P1 actions.
12. The scope of much of the audit work during 2016/17 was focussed on the setting up of a strong governance framework consisting of appropriate policies, procedures and frameworks for areas such as project and programme management, budgetary control and financial planning, land and property disposals and capital programme. The Council has worked with Deloitte on its improvement plan with the latter providing positive feedback on the progress made to date.
13. Many audits undertaken during 2016/17 were able to confirm that suitable policies and procedures had been established but were not able to conclude on the extent to which such policies and procedures were embedded within the Council's overall culture. The latter will be the main focus for audit work undertaken during 2017/18. The overall internal audit opinion of Good for 2016/17 is therefore an assessment of the policy and procedural framework but is not yet an assessment of the extent to which that framework is being complied with or has become

embedded into the Council's culture and business as usual. The Council has acknowledged this and is committed to continuous improvement.

14. The main area of governance that Internal Audit would raise as requiring further action relates to land and property disposals. Given the importance of this area to the Council, it is encouraging to note the new policy and process that was introduced during the year (a copy of which was shared with Internal Audit prior to its presentation). Given that the process was only introduced in December 2016 however, there is still further work to do to raise awareness of this process and to ensure that all involved in the process of selling an asset understand and comply with the process.

FINANCIAL CONSIDERATIONS

15. 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. The budget for internal audit services for 2016/17 was approximately £180K.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

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

RECOMMENDATIONS

17. 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

18. 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.
19. 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

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

AUTHOR

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