

COMMITTEE REPORT

CORPORATE AFFAIRS AND AUDIT

28 September 2017

Internal Audit – Final Annual Report of Internal Audit

Helen Fowler – Audit and Assurance Manager

PURPOSE OF REPORT

1. The final 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 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).

BACKGROUND

3. Due to the number of audit reports still in draft at the time of the Committee meeting in June 2017, a draft version of the internal audit annual report was presented. Most of those reports have now been issued as final versions. The additional work completed since the draft version of the annual report has not resulted in a change to the overall audit opinion on the control environment.
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 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 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 two years.
12. 2015/16 - 154 internal audit recommendations were made of which only 1 (priority 2) has yet to be actioned. For 4 (one P2 and three P3s) of the 154 actions, management accepted the associated risk on the grounds that the assessed level of risk was not significant enough given the resources required to implement the action.
13. 2016/17, 112 actions have been recommended, of which 16 have yet to be agreed (as the reports are still in draft). 63 of the remaining 96 have been implemented and action is underway to implement the remaining 33 (only 11 of which have passed their agreed target date, seven P2s and four P3s).
14. 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.

15. 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.
16. The main area of governance that Internal Audit would raise as requiring further attention relates to land and property disposals. An internal audit recently carried out in this area has given a provisional opinion of Moderate assurance (report is still in draft). Management has acknowledged that there is still further progress to be made but given that the internal audit opinion on this area was a cause for concern in 2015/16, it is encouraging to note the progress that has been made.

FINANCIAL CONSIDERATIONS

17. 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

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

RECOMMENDATIONS

19. 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

20. 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.
21. 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

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

AUTHOR

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