

CORPORATE AFFAIRS AND AUDIT COMMITTEE

Report title	Internal Audit Annual Report 2017/18
Chief Executive or Director	Strategic Director of Finance, Governance and Support
Date	26 July 2018
Purpose of the report	The final annual report from Internal Audit provides a summary of the internal audit work performed in the year 2017/18 and expresses an opinion on the overall internal control environment in place within Middlesbrough Council. It also considers the internal audit performance outturn for 2017/18 and the compliance of Tees Valley Audit & Assurance Services against the Public Sector Internal Auditing Standards (PSIAS).
Summary of the report	TVAAS undertakes its programme of work in accordance with the standards set out in the Public Sector Internal Auditing Standard (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.
If this is a confidential report, which category of exemption(s) from the Schedule 12a of the Local Government Act 1972 applies?	Not applicable.
Decision(s) asked for	It is recommended that Members of the Corporate Affairs and Audit Committee note and comment on the annual report and identify any areas where additional assurance is required by the Committee.
Impact of decision(s)	By operating to an agreed programme of audits, the work of TVAAS is aimed at assisting the Council in meeting its priorities and managing its risks. It identifies areas for improvement resulting in remedial action being taken where required. 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.
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What is the purpose of this report?

1. The purpose of the report is to present the internal audit outcomes for the 2017/18 year and to provide the Audit & Assurance Manager's overall opinion on the Council's control environment as a result of that work.
2. To present Members with the 2017/18 self-assessment of the internal audit service against the Public Sector Internal Audit Standards (PSIAS) and to inform Members of the conclusions arising from Hartlepool Borough Council's external review of the self-assessment.

Why is this report necessary?

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. Each year the Corporate Affairs and Audit Committee agree an Annual Governance Statement, giving assurance that proper governance of operations has been in place throughout the year. Part of that assurance is gained from the work of TVAAS (Audit and Assurance Team) which is a shared arrangement with Redcar and Cleveland Borough Council. TVAAS acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
5. The Council's internal audit service is provided by Tees Valley Audit & Assurance Service, 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 Corporate Affairs and Audit Committee approved the 2017/18 Audit Plan at their meeting on 29 June 2017. The total number of planned audit days for 2017/18 was 855 days (2016/17 - 855).

7. The work carried out by TVAAS is aimed at providing independent assurance to the Council's senior officers, elected members and members of the public that the key risks faced by the Council, to the achievement of the Mayor's Vision, are being managed effectively and that appropriate safeguards are in place for public funds and assets. Many of the audits have involved sample testing and discussion with officers across all directorates of the Council in order to be able to provide assurance at a corporate level whilst a number of audits will be specific to one directorate. Any internal audit plan needs to continue to retain some flexibility so that it can respond to management requests, changes in priorities and new or emerging risks. Therefore the plan was designed to be responsive in nature and all efforts were made to maximise coverage to provide the most effective service possible that focuses on those key issues facing the organisation throughout the year.
8. Overall Opinion - The overall opinion of the Audit and Assurance Manager on the controls operating in the Council during 2017/18 is that they provide Good Assurance. This opinion is based on the work performed by the internal audit team during the year 2017/18 as detailed in the full annual report at **Appendix 1**. If reliance has been placed on another assurance body in reaching this opinion, this will be noted against the relevant assignment.
9. The work of internal audit is governed by the Accounts and Audit Regulations 2015, the Public Sector Internal Audit Standards, relevant professional standards and the Council's Internal Audit Charter. The PSIAS detail the Code of Ethics for internal auditors and provide quality criteria against which performance can be evaluated. Since the standards were adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) have issued further guidance via an application note that includes a checklist to assist internal audit practitioners in reviewing and updating working practices. Each year, a self-assessment is completed which compares current internal audit working practices against the criteria set out in the PSIAS. The summarised self-assessment for 2017/18 is included at **Appendix 1**.
10. The PSIAS require the internal audit function to undertake an independent external assessment of its compliance with these standards every 5 years. As the Service is now in its 5th year since the Standards were introduced, there was a need to have an external assessment of the service undertaken. Redcar and Cleveland Borough Council agreed the proposed method for this assessment which was a self-assessment with external validation. This was proportionate to the size of the service.
11. As a result, the external assessment of TVAAS' compliance with the PSIAS has been undertaken by the Chief Internal Auditor of Hartlepool Borough Council (who satisfied the PSIAS competency requirements) who has reported Satisfactory Assurance that the Service complies with the PSIAS with only minor areas for further consideration. Hartlepool Brough Council's internal audit service applies three opinion levels (satisfactory, limited and no). The external review report is included at **Appendix 2**.

What decision(s) are being asked for?

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.
13. That Members consider the PSIAS self-assessment and results of the external validation of TVAAS' compliance with the PSIAS.

Why is this being recommended?

14. 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.
15. 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 annual opinion should be supported by sufficient, reliable, relevant and useful information.
16. An external assessment of the Service's compliance with the PSIAS provides the Governance Committee with assurance that the Service is complying with required standards.

Other potential decisions and why these have not been recommended

17. The Annual Report is presented for Members' comment and scrutiny and is a factual summary of internal audit work undertaken during the year.
18. The external validation could have been carried out by an organisation such as the Institute of Internal Auditors but at more considerable cost and resources which is unlikely to be proportionate to the size of the Team. Given that all three Tees Valley internal audit services were in the same position, the proposed approach adopted by Redcar & Cleveland Borough Council, which involved no cost (other than the time required to perform each other's review) was considered to be the proportionate and pragmatic option.

Impact(s) of recommended decision(s)

19. By operating to an agreed programme of audits, the work of TVAAS is aimed at assisting the Council in meeting its priorities and managing its risks. It identifies areas for improvement resulting in remedial action being taken where required.

Legal

20. The work of TVAAS is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). 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 is a statutory requirement in a local authority. The Council has delegated the delivery of this responsibility to the Strategic Director for Finance, Governance & Support.

Financial

22. The number of days is based on the estimated productive days per member of the Team taking into account known and estimated absences and commitments. Redcar & Cleveland Borough 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 applied to the actual days worked. The overall annual budget for internal audit is circa £180K.

The Mayor's Vision for Middlesbrough

23. Internal Audit assists management in delivering the Mayor's Vision by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.

Policy Framework

24. The Corporate Affairs and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements. TVAAS acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Wards

25. There are no specific financial or ward implications arising from the Internal Audit Annual Report 2017/18.

Equality and Diversity

26. There are no direct implications from this report on equality and diversity although aspects of the proposed internal audit work may involve a review of issues affecting equality and diversity.

Risk

27. Internal audit and assurance work 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.

Actions to be taken to implement the decision(s)

28. Any requests for additional assurance or clarification by Members of the Committee will be considered for inclusion in the Internal Audit Report 2017/18.

Appendices

29. Appendix 1 – 2017/18 Annual Internal Audit Report
Appendix 2 – External Validation of PSIAS Self-Assessment

Background papers

30. No background papers other than published works were used in the preparation of this report.

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