

<b>Report of:</b>	Audit & Assurance Manager, Tees Valley Audit & Assurance Services
<b>Submitted to:</b>	Corporate Affairs and Audit Committee 25 July 2019
<b>Subject:</b>	Internal Audit Annual Report 2018/19

**Summary**

<b>Proposed decision(s)</b>
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.

<b>Report for:</b>	<b>Key decision:</b>	<b>Confidential:</b>	<b>Is the report urgent?<sup>1</sup></b>
Information	No	No	No

<b>Contribution to delivery of the 2018-22 Strategic Plan</b>		
<b>Business Imperatives</b>	<b>Physical Regeneration</b>	<b>Social Regeneration</b>
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	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	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.	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.	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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<b>Ward(s) affected</b>
None.

### What is the purpose of this report?

1. The purpose of the report is to present the internal audit outcomes for the 2018/19 year and to provide the Audit & Assurance Manager's overall opinion on the Council's control environment as a result of that work. The report also provides details of the Internal Audit Service's performance against its agreed performance measures.

### Why does this report require a Member decision?

2. 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.
3. 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.
4. 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**.

### Report Background

5. 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.

6. 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.
7. Members of the Corporate Affairs and Audit Committee approved the 2018/19 Audit Plan at their meeting on May 2018. The total number of planned audit days for 2018/19 was 855 days (2017/18 - 855).
8. 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 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 to be able to provide assurance at a corporate level whilst several audits have been specific to one directorate. The internal audit plan remained flexible to enable it to respond to management requests, changes in priorities and new or emerging risks. 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.
9. **Overall Opinion** - the overall opinion of the Audit and Assurance Manager on the controls operating in the Council during 2018/19 is that they provide Good Assurance. This opinion is based on the work performed by the internal audit team during the year 2018/19 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.
10. The opinion of Good for 2018/19 considers that assurance can be obtained by the number of reports where the overall opinion is Strong or Good and the action taken to implement recommendations where cause for concern or moderate opinions have been given. No priority one actions have been raised during the year and none are outstanding from previous years. The Council's number of outstanding actions of all priorities (that have passed their due date) is consistently kept low as the Council closely monitors the number of actions that need implementing. During 2018/19, Internal Audit issued three reports with a cause for concern opinion: S117 Healthcare Costs, Purchasing Cards and Children's Services Financial Management.
11. 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 2018/19 is included as a separate report to the Committee.

## **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.

## **Why is this being recommended?**

13. 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 assists management in delivering the objectives of the Council 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.

## **Other potential decisions and why these have not been recommended**

15. The Annual Report 2018/19 is presented for Members' comment and information and is a factual summary of internal audit work undertaken during the year.

## **Impact(s) of recommended decision(s)**

16. 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***

17. 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.
18. 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***

19. The number of days is based on the estimated productive days per member of the Team considering 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.

## **Policy Framework**

20. 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 and policy 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.

## **Equality and Diversity**

21. 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**

22. 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. As such, internal audit work contributes to providing assurance on the mitigation controls for many of the risks included on the Council's risk registers, both strategic and directorate. Internal audit work particularly links into risk reference O8-054 which relates to having adequate governance processes in place.

## **Actions to be taken to implement the decision(s)**

23. Any requests for additional assurance or clarification by Members of the Committee will be considered for inclusion during 2019/20 internal audit work.

## **Appendices**

Appendix 1 – 2018/19 Internal Audit Annual Report

## **Background papers**

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

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