

<b>REPORT TO:</b>	<b>GENERAL PURPOSES &amp; AUDIT COMMITTEE</b> <b>18<sup>th</sup> July 2018</b>
<b>SUBJECT:</b>	<b>Head of Internal Audit Annual Report 2017/18</b>
<b>LEAD OFFICER:</b>	<b>Director of Governance</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY</b>  Internal Audit's work helps the Council to improve its corporate capacity through sound and robust governance structures, financial management and risk management within the organisation. Strengthening corporate capacity is critical in improving the Council's ability to deliver services helping the Council achieve its vision and aims for the community as a whole.	
<b>FINANCIAL SUMMARY:</b>  The Internal Audit contract for 2017/18 was a fixed price of £333,000 and the appropriate provision was made within the budget for 2017/18. The cost of the service compares well with other boroughs as demonstrated through recent benchmarking studies.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b>	

## **1. RECOMMENDATIONS**

- 1.1 The Committee is asked to note the Head of Internal Audit Report 2017/18 (Appendix 1) and the overall Substantial level of assurance of the Council's systems of internal control.

## 2. EXECUTIVE SUMMARY

- 2.1 This report details the work completed by Internal Audit in 2017/18 and the overall levels of assurance for the Council's internal control environment to support the Annual Governance Statement (AGS).
- 2.2 From the Internal Audit work undertaken in 2017/18, it is the Head of Internal Audit's opinion that Internal Audit can provide **Substantial Assurance** in relation to the system of internal control, and that the internal controls within financial and non-financial systems operating throughout the year were fundamentally sound.

## 3. DETAIL

- 3.1 The Public Sector Internal Audit Standards require the Head of Internal Audit to prepare an annual written report to members that includes:
- an opinion on the overall effectiveness of the organisation's framework for governance, risk management and control;
  - disclosure of any qualifications on that opinion; and
  - any issues the Head of Internal Audit judges relevant to the preparation of the Annual Governance Statement.
- 3.2 Appendix 1 details the annual report for the period 2017/18. From the work undertaken, the Head of Internal Audit is giving a **Substantial Assurance** in that the Council's framework for governance, risk management and control accords with proper practice except for the control weaknesses identified in the report.
- 3.3 The Substantial level of assurance reflects that **70%** of individual finalised audits received either Full or Substantial assurance levels. This compares with 86% for the previous year. It should be noted, however, that at the time of writing there are still a number reports in draft. There will be an update on these outstanding reports at the next meeting of this committee.
- 3.4 Internal audit has identified issues and risks and service managers have identified actions to mitigate those risks. The Council now needs to ensure that the action is taken to implement audit recommendations particularly in relation to priority one issues.

### Implementation of Audit recommendations

- 3.5 The Council has set targets for the implementation of audit recommendations. Implementation is assessed at the time of follow-up audits. The targets are 80% for all priority 2 & 3 recommendations and 90% for priority 1 recommendations. The table below shows achievement against these targets for the follow-up audits carried out to date. Indications are that the targets for recommendations for 2017/18 will be achieved when the follow up programme is completed over the coming year.

### Implementation of agreed recommendations

Performance Objective	Target	Performance 2014/15	Performance 2015/16 (to date*)	Performance 2016/17 (to date*)	Performance 2017-18 (to date*)
Percentage of priority one recommendations implemented at the time of the follow up audit	90%	100%	96%	88%	77%
Percentage of all recommendations implemented at the time of the follow up audit	80%	89%	89%	87%	70%

\* audits are still being followed up for 2015/16, 2016/17 and 2017/18 and therefore the percentage is likely to change.

- 3.6 Internal Audit continues to work with departments to help improve implementation timescales. This includes reports to all Departmental Management Teams highlighting where recommendations are not being implemented and agreeing the way forward.

### Significant Control Weaknesses

- 3.7 Internal Audit is required to form an opinion on the quality of the framework for governance, risk management and control, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2017/18, two key issues were identified.
- Although there has been much improvement since last year, during the course of internal audit work during the year, a number of issues were identified arising from non-compliance with the Councils Contracts and Tenders Regulations and on-going contract management.
  - Internal audit work during the year identified a number of issues relating to budgeting and financial management within the People's department.
- 3.8 Recommendations have been made to address these weaknesses and internal audit will be involved in further audit work in these areas.

## 4. CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 4.1 The internal audit function at the Council **Generally Conforms** to the Public Sector Internal Audit Standards. Further details are contained in a separate report elsewhere on this agenda.

## 5. CONSULTATION

- 5.1 The outcome of all audit work is discussed and agreed with the lead service managers. On a quarterly basis Departmental Leadership Teams consider progress on audit recommendations in liaison with the Governance Team.

## **6. FINANCIAL AND RISK CONSIDERATIONS**

- 6.1 The fixed price for the Internal Audit Contract was £333,000 for 2017/18 and there was adequate provision within the budget. There are no additional financial considerations relating to this report.
- 6.2 Internal Audit's planning methodology is based on risk assessments that include using the Council risk registers processes and ensure the integration with the risk management framework.

(Approved by: Ian Geary, Head of Finance, Resources & Accountancy)

## **7. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

- 7.1 The Council Solicitor advises that the Council's Financial Regulations, as part of the Constitution, require the preparation of an annual Head of Audit Report and an Annual Governance Statement. Further, the terms of reference of the General Purposes Audit Committee enables it to consider the annual report of the Head of Internal Audit and make recommendations as appropriate to Cabinet and/or Full Council (Part 3 paragraph 2.3.11).

(Approved by Sandra Herbert Head of Litigation and Corporate for and on behalf of Jacqueline Harris-Baker Director of Law, Monitoring Officer and Council Solicitor)

## **8. HUMAN RESOURCES IMPACT**

- 8.1 There are no immediate human resource considerations arising from this report for LBC employees or staff.

(Approved by: Gillian Bevan, Acting Head of HR, Resources and CE Office)

## **9. CUSTOMER FOCUS, EQUALITIES, ENVIRONMENTAL, HUMAN RIGHTS & FREEDOM OF INFORMATION IMPACTS**

- 9.1 When internal Audit is developing the Annual Audit Plan or individual audit programmes the impacts of the issues above are considered depending on the nature of the area of service being reviewed. Issues relating to these impacts would be reflected in the audit reports and recommendations.

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**CONTACT OFFICER:** Simon Maddocks, Director of Governance (Head of Internal Audit)

**BACKGROUND DOCUMENTS:** None