

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**REPORT OF THE EXECUTIVE MANAGEMENT TEAM
TO THE AUDIT & STANDARDS COMMITTEE**

24th June 2019

1. INTERNAL AUDIT ANNUAL REPORT 2018/19

Submitted by: Chief Internal Auditor, Clare Potts

Portfolio: Finance and Efficiency

Ward(s) affected: All

Purpose of the Report

To consider the annual report of the Internal Audit activity for the financial year 2018-19 enclosed as Appendix A.

Recommendations

A That the Internal Audit Annual Report for 2018/19 be noted.

Reasons

In accordance with the Internal Audit Charter objective to report progress against the plan to the Audit & Standards Committee on a quarterly basis and to provide an annual opinion on the Authority's control environment.

1. Background

- 1.1 The primary purpose of an Internal Audit service is to provide an independent, objective assurance and consulting service to the organisation; and through the efficient delivery of this service seeks to add value and improve the organisation's operations and controls to effectively deliver the council's Strategic Priorities. Internal Audit assists the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. Internal Audit is an independent appraisal function within the Borough Council under the control of the Executive Director Resources & Support Services (and Section 151 Officer).
- 1.2 Internal Audit also provide a service to management by giving assurance that there are adequate internal controls in operation, ensuring the proper economic, efficient and effective use of resources, to include the security of assets and data and to assist management in preventing and detecting fraud. This is achieved by the completion of routine system and regularity audits and under a wider remit by value for money and special audits.
- 1.3 The council's Internal Audit team consists of 2 FTE Auditors, 1 FTE Corporate Fraud Officer and is supported by Stoke-on-Trent City Council who have an agreement in place to provide support to the Council's in-house Internal Audit team and undertake the role of Chief Internal Auditor as defined by the PSIAS.

- 1.4 This report provides information on the programme of work undertaken by Internal Audit during the financial year 2018/19. Monitoring of the Section's performance against plan is completed and an analysis undertaken of actual work areas across major audit areas.
- 1.5 The section has continued to contract in specialist external IT audit support. The contract for 2018/19 was awarded to Information Security Advice Limited.
- 1.6 As required by the Public Sector Internal Audit Standards, an Internal Audit Charter is required in respect of delivering the Internal Audit Service. The internal audit charter is a formal document that defines internal audit's purpose, authority and responsibility. The charter establishes Internal Audit's position within the organisation, including the nature of the Chief Internal Auditor's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities. It provides a framework for the conduct of the service. The latest version of the Charter has been approved by the Council's Executive Management Team and the Audit and Standards Committee in April 2019.
- 1.7 The Internal Audit year-end report also builds upon the assurance given by the section in support of the Annual Governance Statement on internal control. The planning and delivery of a robust audit plan ensures that an annual opinion and overall level of assurance can be provided by the Chief Internal Auditor to those charged with governance, thereby complying with constitutional requirements and sector standards. This opinion is one of the elements of the assurance framework which is reported in the annual governance statement.

2. **Summary**

- 2.1 The Audit and Standards Committee approved the original Audit Plan for 2018/19 on the 25th June 2018. The plan accounted for 435 audit days.
- 2.2 Of the planned work identified in the 2018/19 Audit Plan, 83.9% of the work had either been completed or was underway at the end of March 2019; the remaining 16.1% was carried forward into 2019/20.
- 2.3 A total of 54 recommendations have been made during 2018/19, 42.6% of which have already been implemented.
- 2.4 The work of Internal Audit shows the Council to have an adequate, effective and reliable **Well Controlled** framework of internal control, which provides reasonable assurance regarding the effective and efficient achievement of the Council's objectives.

3. **Options Considered**

- 3.1 In considering the resourcing of the Internal Audit Section consideration is given to the skills required and those that are available internally, or are best provided by external companies. The provision of IT Audit skills is a specialist area and one that is constantly changing. The provision of IT Assurance Audit work for 2018/19 was therefore allocated to specialist external IT Audit support.

4. **Proposal**

- 4.1 Not applicable.

5. **Reasons for Preferred Solution**

5.1 Not applicable.

6. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

6.1 The Internal Audit team directly contribute to the corporate priority “transforming our Council to achieve excellence”. The mission of internal audit is “To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight” (Public Sector Internal Audit Standards). The results of the work undertaken during the year contribute to the overall annual internal audit opinion. This assists the Audit & Standards Committee and the Executive Management Team to discharge their roles of accountability and stewardship which represents a key element within the Authority’s governance framework.

6.2 The Internal Audit function also contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money. Therefore ensuring the best use of the Council’s resources and improving efficiency where weaknesses are identified to support all the council’s priorities.

7. **Legal and Statutory Implications**

7.1 The Accounts and Audit (England) Regulations 2015, state that “A relevant authority [the Council] must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.” (para 5(1)).

7.2 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements *for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*’. CIPFA has defined ‘*proper administration*’ in that it should include ‘*compliance with the statutory requirements for accounting and internal audit*’.

7.3 The activities of Internal Audit are planned in accordance with the Accounts and Audit Regulations which place a duty upon the Chief Internal Auditor to report to members on a regular basis. By acting upon recommendations within internal audit reports, the council is demonstrating its commitment to maintain an adequate and effective system of internal control, as required by these regulations. Satisfactory delivery of the audit plan assists the Executive Director Resources & Support Services (and Section 151 Officer), in discharging her duties under section 151 of the Local Government Act 1972.

8. **Equality Impact Assessment**

8.1 There are no equality impact issues identified.

9. **Financial and Resource Implications**

9.1 The work undertaken during 2018/19 was carried out within the approved budget for Internal Audit. The financial implications resulting from the recommendations made within audit reports is highlighted within individual reports wherever possible. It is the responsibility of managers receiving audit reports to take account of these financial implications, and to take the appropriate action.

9.2 Internal Audit is directed by the Chief Internal Auditor provided through a service agreement by Stoke-on-Trent City Council. The approved structure consists of 2 full time internal auditors. In addition, support is provided by Stoke-on-Trent City Council to provide quality assurance and management support to the team.

10. **Major Risks**

10.1 The key risk to be considered in noting the attached report is that the independent and objective assurance provided by Internal Audit is, or is perceived to be, compromised. The consequence of which is that opportunities to improve the Authority's system of internal controls, governance framework and the delivery of its objectives are not identified or acted upon. This risk is managed through a combination of the governance and reporting frameworks within which Internal Audit operates and the overview carried out by this Committee. No risks have been identified that are not within acceptable tolerances.

11. **Sustainability and Climate Change Implications**

11.1 There are no sustainability or climate change implications.

12. **Key Decision Information**

12.1 This report is not a key decision as defined by the Council's Constitution.

13. **Earlier Cabinet/Committee Resolutions**

13.1 This report is not in reference to previous Cabinet or Committee resolutions.

14. **List of Appendices**

Appendix A – Internal Audit Annual Report 2018/19

15. **Background Papers**

15.1 Audit Plan 2018/19.