

Croydon Council

General Release

REPORT TO:	GENERAL PURPOSES & AUDIT COMMITTEE 24th June 2015
AGENDA ITEM:	9
SUBJECT:	Head of Internal Audit Annual Report 2014/15
LEAD OFFICER:	Head of Governance
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	ALL
CORPORATE PRIORITY/POLICY 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.	
FINANCIAL SUMMARY: The Internal Audit contract for 2014/15 was a fixed price contract of £451,000 and the appropriate provision was made within the budget for 2014/15. The cost of the service compares well with other boroughs as demonstrated through recent benchmarking studies.	
FORWARD PLAN KEY DECISION REFERENCE NO.:	

For general release

1. RECOMMENDATIONS
1.1 The Committee is asked to note the Head of Internal Audit Report 2014/15 (Appendix 1) and the overall satisfactory 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 2014/15 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 2014/15, it is the Head of Internal Audit's opinion that Internal Audit can provide **Satisfactory 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 2014/15. From the work undertaken, the head of Internal Audit is giving a **satisfactory 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 satisfactory level of assurance reflects that 64% of individual audits received either Full or Satisfactory assurance levels. This is in line with the previous year.
- 3.4 Internal audit has identified risks and agreed with service managers recommendations 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 recommendations.

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 2013/14 will be achieved when the follow up programme is completed over the coming year.

Implementation of agreed recommendations

Performance Objective	Target	Performance 2012/13 (to date)*	Performance 2013/14 (to date)*	Performance 2014/15 (to date)*
Percentage of priority one recommendations implemented at the time of the follow up audit	90%	97%	98%	71%
Percentage of all recommendations implemented at the time of the follow up audit	80%	92%	89%	81%

* audits are still being followed up for 2012/13, 2013/14 & 2014/15 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 2014/15, six key issues were identified.
- A number of audits evidenced a lack of compliance with the Council's Schemes of Delegation, including authority to act and retrospective authorisation;
 - Over 68% of the schools audited during 2014/15 were given a limited assurance (15 out of 22 schools). Significant recommendations raised as a result of these audits related primarily to compliance with procurement requirements;
 - Significant recommendations were raised due to a lack of compliance with the Councils Contracts and Tenders regulations, including contract formalities and the retention and availability of key documents;
 - A number of audits identified that reconciliations to General Ledger were not being conducted in a timely manner. Some of these instances were due to the transition to One Oracle;
 - In addition to reports necessary for budget managers to carry out the responsibilities properly, there are some important other specific One Oracle reports that are not available including: Aged debtor analysis, Exception reporting and Vacation rules, and

- Significant recommendations were raised relating to contract management, including weaknesses in active monitoring and physical checking.

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** with 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 Management Teams consider progress on audit recommendations in liaison with the Governance Team. Details of this report are circulated and discussed with all Directors.

6. FINANCIAL AND RISK CONSIDERATIONS

6.1 The fixed price for the Internal Audit Contract was £451,000 for 2014/15 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: Dianne Pelling, Head of Finance and Deputy S151 Officer)

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 AGS.

(Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor & Monitoring Officer)

8. HUMAN RESOURCES IMPACT

8.1 There are no human resource considerations that arise from the

recommendations of this report for LBC staff

(Approved by: Michael Pichamuthu, HRBP on behalf of Heather Daley, Director of HR)

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.

CONTACT OFFICER: Simon Maddocks, Head of Governance

BACKGROUND DOCUMENTS: None