

REPORT TO:	GENERAL PURPOSES & AUDIT COMMITTEE 11 July 2019
SUBJECT:	Head of Internal Audit Annual Report 2018/19
LEAD OFFICER:	Head of Internal Audit
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Resources
WARDS:	ALL
CORPORATE PRIORITY/POLICY	
<p>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.</p>	
FINANCIAL SUMMARY:	
<p>The Internal Audit contract for 2018/19 was a fixed price of £377,280 and the appropriate provision was made within the budget for 2018/19. The cost of the service compares well with other boroughs as demonstrated through recent benchmarking studies.</p>	
FORWARD PLAN KEY DECISION REFERENCE NO.:	

1. RECOMMENDATIONS

- 1.1 The Committee is asked to note the Head of Internal Audit Report 2018/19 (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 2018/19 and the overall levels of assurance for the Council's internal control environment to support the Annual Governance Statement (AGS). The AGS will come to the next meeting of this committee and will be published on the Council's website alongside the final accounts.
- 2.2 From the Internal Audit work undertaken in 2018/19, 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 2018/19. 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 **58%** of individual finalised audits received either Full or Substantial assurance levels. This compares with 66% 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 October 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 2018/19 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*)	Performance 2018-19 (to date*)
Percentage of priority one recommendations implemented at the time of the follow up audit	90%	100%	91%	98%	92%	78%
Percentage of all recommendations implemented at the time of the follow up audit	80%	89%	88%	87%	88%	72%

* audits are still being followed up for 2015/16, 2016/17, 2017/18 and 2018/19 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 2018/19, the following key issues were identified.

- Although there continues to be improvements, during the course of internal audit work during the year, a number of issues were identified with contract monitoring and management.
- Internal audit work during the year identified a number of issues relating to financial management within the adult and children's social care teams.
- An internal audit conducted during the year of energy recharges identified some significant weaknesses resulting in circa £4M of recharges being outstanding, a significant part of which related to organisations outside of the council. This resulted in a 'No Assurance' audit report being issued.
- Following a change in legislation during 2018, internal audit identified a number of instances where privacy notices relating to the collection of personal data were missing or were no longer fit for purpose. Also noted that agreements with 3rd parties did not always address this issue adequately.

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 £377,280 for 2018/19 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. LEGAL CONSIDERATIONS

7.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that there are various obligations upon the Council regarding ensuring that its business is conducted in accordance with the law and proper standards. This includes the duty (under the Local Government Act 1999) to make arrangements to secure continuous improvement, to have an Annual Government Statement (Account and Audit Regulations 2015) and to undertake a review of effectiveness.

7.2 Further 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.

7.3 It is noted that 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.

(Approved by, Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer)

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, Head of HR for Resources)

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 Internal Audit

APPENDIX: Internal Audit Annual Report for the year ended 31 March 2019