

REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 25th JULY 2018

Report of: AUDIT MANAGERS

Title: ANNUAL REPORT OF INTERNAL AUDIT FOR THE YEAR ENDED 31 MARCH 2018

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function? COUNCIL

1. What is the report about?

The annual Internal Audit Report conforming to the Public Sector Internal Audit Standards and timed to inform the Council's Annual Governance Statement, including the quarterly update on the progress of Internal Audit work.

2. Recommendations:

Members are recommended to note the contents of the Annual Internal Audit Report.

3. Reasons for the recommendation:

To comply with the Public Sector Internal Audit Standards and Corporate Governance best practice.

4. What are the resource implications including non financial resources.

None

5. Section 151 Officer comments:

The internal audit work undertaken during the year identified no new significant issues. The Council continues to make enhancements and improvements to its governance arrangements to address issues identified last year and are included within the Council's Annual Governance Statement.

6. What are the legal aspects?

None identified.

7. Monitoring Officer's comments:

Whilst no new significant issues have been identified, it is vital that Audit team's recommendations are implemented with the objective of improving the direction of travel.

8. Report details:

8.1 The Public Sector Internal Audit Standards (PSAIS), which came into effect in April 2013, require that:

- The Audit Manager must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control
- The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme

8.2 OPINION ON THE COUNCIL'S CONTROL ENVIRONMENT

a) **Internal Control Statement**

In accordance with the Accounts and Audit Regulations 2015 the Council is responsible for maintaining an adequate and effective system of internal audit.

It is the responsibility of senior management to establish an appropriate and sound system of internal control, and to monitor the effectiveness of these systems. It is the responsibility of Internal Audit to provide an annual overall assessment of the robustness of the internal control system.

The main objectives of the internal control systems are to ensure:

- compliance with the Council's policies, procedures and directives in order to achieve the Council's objectives
- high standards of Corporate Governance are achieved and maintained throughout the Council
- that assets are safeguarded
- the relevance, reliability and integrity of information, and the completeness and accuracy of records
- compliance with statutory requirements, recognised standards and best practice.

Systems of control can only ever provide reasonable, but not absolute, assurance that control weaknesses and irregularities do not exist, and that there are no risks of material errors, losses, fraud or breaches of laws or regulations. The Council is therefore continually seeking to improve the effectiveness of its systems of internal control.

Internal Audit is charged with continually reviewing the system of internal control system on behalf of the Council and its management. Internal Audit objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. The work of Internal Audit is based upon a risk assessment of the Council's financial and non-financial systems, from which an annual audit plan is established that was referred to the Audit and Governance Committee in March 2017 for approval.

b) **Basis of Opinion**

Our evaluation of the control environment is informed by a number of sources:

- the work undertaken by Internal Audit during the year to 31 March 2018

- the implementation of agreed remedial action by management
- reports issued by the External Auditors
- risks identified in the Council's Corporate risk register
- the review of the adequacy and effectiveness of the Council's system of internal control as it relates to corporate governance, risk management and quality of data arrangements
- other sources of assurance and information

c) Work undertaken in the year

The Audit Progress Table shows the work completed during this year (see Appendix A). At the meeting held in December 2017 this committee approved a supplementary budget to provide additional staffing resources required as a result significant staff sickness in order to deliver the approved audit plan. The existing team worked additional hours for the period January to March 2018 to cover the shortfall in staffing time which enable the completion of the audit plan within the approved supplementary budget.

A summary of the work undertaken by Internal Audit in the previous quarters is presented to this committee throughout the year, therefore only a summary of the work undertaken in the last quarter has been included to avoid duplication (see Appendix B). There were no instances where remedial action was not agreed by management during the last quarter that require consideration by this committee.

In addition to the planned work, Internal Audit has also worked on a number of reported concerns and investigations throughout the year. A summary of this work is included in Appendix C. This appendix also shows all fraud that has been identified throughout the Council during the year (excluding housing benefits fraud).

Internal Audit is also required to maintain a Quality Assurance Improvement Program which includes details of conformance with the PSIAS. The results of this program are included in Appendix D.

d) Regulation of Investigatory Powers (RIPA)

As co-ordinators of RIPA for Exeter City Council we are required to report to this committee on the use of RIPA by the Council during the year. During 2017/18 RIPA was not used by Exeter City Council. All Councils are required to be inspected every 5 years to ensure that policies and procedures and any use of RIPA is in accordance with legislation. On the 25th May 2018, the Council was inspected by a representative of the Investigatory Powers Commissioners Office (IPCO) and are currently awaiting the inspectors report. The findings of the inspection will be reported to the next Audit & Governance Committee.

e) Counter Fraud

Internal audit has conducted a review of the Council's counter fraud capability in accordance with Fighting Fraud Locally and Protecting the Public Purse. A report has been presented to the Chief Finance Officer who will be presenting it to the Senior Management Board. A summary of the report will be presented to A&G at the next meeting.

As part of the review, Protecting the Public Purse recommends that "every authority undertakes an assessment of its financial irregularity, fraud and corruption risk.

Therefore to assist with this a fraud risk table has been established and will be continually under review and developed. A copy of this risk table is attached at **Appendix E, which is Part II.**

f) Areas of Concern identified 2017-18

As a result of the audit work that has been undertaken throughout the year no significant issues have been identified.

g) Update on Areas of Concern identified 2016-17

However, the Council continues to make enhancements and improvements to its governance arrangements as reported last year and these key areas are shown in the Annual Governance Statement along with a summary of action taken to date.

h) Opinion

From the audit work undertaken during the year, we consider that the key systems are operating satisfactorily and that there are no fundamental breakdowns of controls resulting in material discrepancy. However, we would advise that the Audit and Governance Committee should continue to monitor the key areas identified in 2016-17 to continue to enhance and improve the Council's corporate governance arrangements.

As mentioned above, no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, this statement is only intended to provide an opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2018.

9. How does the decision contribute to the Council's Corporate Plan?

Good governance contributes to the Council's purpose of a "Well Run Council".

10. What risks are there and how can they be reduced?

N/A

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

N/A

12. Are there any other options?

N/A

Helen Putt & Helen Kelvey
Audit Managers

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:

Democratic Services (Committees)

Room 2.3

01392 265275