



Committee report

Committee	AUDIT COMMITTEE
Date	25 JUNE 2015
Title	ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT
Report of	BUSINESS IMPROVEMENT MANAGER (AS HEAD OF INTERNAL AUDIT)

EXECUTIVE SUMMARY

1. This is the annual report of the Head of Internal Audit on the activities of the internal audit function, the outcomes of its work, and provides an opinion on the council's control regime. The annual report is attached as an appendix. The committee's terms of reference require that it considers the Head of Internal Audit's Annual Report and Opinion and the level of assurance given against the Annual Governance Statement published with the annual accounts.

BACKGROUND

2. The annual report covers the following issues:
 - An opinion on the adequacy of the system of governance, risk management and internal control operating at the council
 - An opinion as to whether those systems support the achievement of the council's objectives
 - A summary of findings from the year's internal audit activities, highlighting some areas considered to be higher risk
 - An assessment of the adequacy of internal audit resources
 - A comparison of planned versus actual audit activity highlighting any variation from the plan
 - A summary of the results of follow up work
 - Key performance indicators for the internal Audit function
3. The report provides an overall opinion of: 'Generally satisfactory with some improvements required', which is further characterised by the following criteria:
 - Medium risk rated weaknesses identified in individual assignments are not significant in aggregate to the system of internal control; and/or
 - High risk rated weaknesses identified in individual assignments are isolated to specific systems or processes; and
4. None of the individual assignment reports have an overall classification of critical risk.

5. The report does however highlight those issues that have arisen from individual reviews during the year, and which have been highlighted by others and in other reviews – not least the review of the council's governance arrangements which are reported elsewhere on today's agenda. In particular the report highlights continuing concern about the ongoing austerity programme and its effect on the robustness of internal control. This includes a reducing management capacity leading to reduced management overview and a reduced ability to secure segregation of duties. The Committee itself has identified this increasing risk when reviewing the council's risks in recent meetings. It is important therefore to ensure that the Annual Governance Statement for 2014-15 highlights this issue.
6. The report also highlights the risk that the council faces from ongoing change. New operating and delivery models will present different approaches, skills and governance arrangements. The council has handled these well to date but care is needed to ensure that the significant and fundamental changes required are managed through the period of transformation. Internal audit reviews have been conducted of these initiatives and projects and they will remain an area of interest in the future. Once again, the risk presented by change has been highlighted in the draft Annual Governance Statement.
7. The committee will also receive a report at this meeting on the arrangements the council has for countering fraud. That report identifies the need for the council to review its policies, procedures and strategies in respect of fraud, with a report back to members when it next meets.

STRATEGIC CONTEXT

8. Robust and independent audit arrangements are a key element of corporate governance. Internal audit's focus is on whether the operations under review are achieving the council's objectives. The council is required by regulations to have an effective system of *internal* audit. This report provides the committee with an overview of governance and internal control from the perspective of the internal auditors.

CONSULTATION

9. Consultation has been undertaken with the council's internal audit provider, PricewaterhouseCooper (PwC) LLP, who have made a significant contribution to the report.

FINANCIAL / BUDGET IMPLICATIONS

10. There are no direct financial implications of this report. The cost of the internal audit service appears competitive when benchmarked against other local authorities. It is also apparent from benchmarking that the council invests an appropriate resource in both financial and human resources relative to other authorities of a similar size and with similar functions.

LEGAL IMPLICATIONS

11. The Accounts and Audit Regulations (England) 2011 require that local authorities undertake an adequate and effective internal audit of their accounts and control environment. This report gives members the opportunity to reach a view as to whether that statutory obligation has been met.

EQUALITY AND DIVERSITY

12. The Council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. It is considered that there are no direct equality and diversity issues of this report.

RISK MANAGEMENT

13. The key risks associated with this report are:
- failing to recognise the contribution that internal audit can make to the council's corporate governance and the audit committee's understanding of the council's systems of control;
 - the council fails in its statutory duty to have an adequate and effective internal audit function and the committee misses an opportunity to highlight any shortcomings;
 - failing to acknowledge and address any issues raised in the annual report.
14. These risks are mitigated by the Committee receiving regular reports on the performance of internal audit throughout the year, participation in developing the audit plan and reviewing the results of audit findings from each review. The committee is therefore well-placed to arrive at its own judgement about the effectiveness of the internal audit function.

RECOMMENDATION

15. To endorse the Annual Report of the Head of Internal Audit and to consider whether any further information or action is necessary.

APPENDICES ATTACHED

16. [Appendix A](#) – Annual Internal Audit Report

Contact Point: Bob Streets, Business Improvement Manager ☎ 821000
e-mail bob.streets@iow.gov.uk

STUART FRASER
*Head of Finance and
Section 151 Officer*

COUNCILLOR IAN STEPHENS
Executive Member for Resources