



## Committee report

Committee	<b>AUDIT COMMITTEE</b>
Date	<b>26 SEPTEMBER 2016</b>
Title	<b>ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT 2015-16</b>
Report of	<b>TECHNICAL FINANCE MANAGER (AS HEAD OF INTERNAL AUDIT)</b>

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### EXECUTIVE SUMMARY

1. This is the annual report of the Head of Internal Audit on the activities of the internal audit function for the year ended 31 March 2016, and the outcomes of its work. It also provides an opinion on the council's control regime.
2. 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.
3. The committee is asked to endorse this report and to consider whether any further information or action is necessary.

### BACKGROUND

4. 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 activity, highlighting any variation from plan.
  - A summary of the results of follow up work.
  - Key performance indicators from the internal audit function.
5. The report provides an overall opinion of "Generally satisfactory with some improvements required." This is further characterised by the following criteria:

- Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control;
  - High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes;
  - None of the individual assignment reports have an overall classification of critical risk.
6. The report does however highlight those thematic issues that have arisen from individual reviews during the year, and which have been highlighted in other reviews, including the council's annual governance statement, also included on today's agenda. These issues include:
- Reduced capacity at the corporate core to support frontline services
  - Inconsistent management of third party relationships
  - Business continuity and disaster recovery
  - Out of date strategies and procedure documentation
7. It is important therefore to ensure that the Annual Governance Statement for 2015-16 highlights these issues.

### 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 co-sourced internal audit provider, PricewaterhouseCoopers LLP (PwC), 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 2015 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. Initial screening has indicated 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](#) – Annual Internal Audit Report 2015-16.

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