



Committee report

Committee	AUDIT COMMITTEE
Date	30 JULY 2018
Title	INTERNAL AUDIT PROGRESS AND ANNUAL OPINION REPORT
Report of	CHIEF INTERNAL AUDITOR

EXECUTIVE SUMMARY

1. This report introduces the performance report from the council's internal audit provider against the 2017/18 Audit Plan (Appendix A) and the Annual Audit Opinion (Appendix C). It provides executive summaries of work completed during the year, along with four high risk areas that have not been previously reported, for members to note.
2. The 'high' risk areas, for Information Management/ IG Toolkit, Beaulieu House, KFS (Payroll) and Public Health are reproduced in full, within Appendix B.

BACKGROUND

3. The Accounts and Audit Regulations 2015 Section 5 define the requirement for an internal audit function within local government, stating that: 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
4. The responsibility for maintaining an adequate and effective system of internal audit within Isle of Wight Council lies with the Director of Finance (s151 Officer).

PURPOSE & AUTHORITY

5. The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the Public Sector Internal Audit Standards (PSIAS). This includes providing an Annual Internal Audit Opinion based on an objective assessment of the authority's framework of governance, risk management and control.
6. Internal Audit has no operational responsibilities for any financial systems, including system development and installation. It does, however, provide advice on control implementation and risk mitigation where relevant, and throughout the design and implementation stages of new systems.

7. Internal Audit is not restricted to the audit of financial systems and controls, but covers all operational and management controls. There are therefore no scope limitations, in that all of the authority's activities fall within the remit of Internal Audit; however, consideration will always be given to the competency, qualification and experience of those auditors tasked with carrying out the individual assignments.
8. The Chief Internal Auditor is free from interference (although has due regard for the authority's key objectives and risks, and consults with members and officers charged with governance) when setting the priorities of the annual audit plan. Internal Audit has free and unfettered access to senior management, defined as s151 Officer, Chief Executive, Monitoring Officer, the Leader of the Council and the Chair of the Audit Committee.

AUDIT PROCESS

9. Following the approval of the annual audit plan by this committee, the individual audit assignments are scoped in provisional agreement with the Chief Internal Auditor. Discussions are then held with relevant senior officers and directors before the final 'Terms of Reference' are issued. At the conclusion of an audit assignment, and following confirmation of the findings with service representatives, the directors are invited to comment on the results noted and agree any remedial action to mitigate risk exposure.
10. Once an assignment is finalised, the findings are reported to the Audit Committee, in order to aid the committee in discharging its duties relating to governance. There is a requirement under the PSIAS that all reported findings are re-evaluated, to ensure that the agreed actions have been duly implemented and have effectively addressed the original risk exposure. This is carried out under a process of 'follow ups', where high & critical risks are retested and their results reported.

SCOPE OF THE AUDIT PLAN

11. During 2017/18, Internal Audit completed 23 internal audit reviews from an audit universe of an estimated 133 auditable areas. The results of these reviews have highlighted five high, 43 medium and 46 low risk findings, where improvements to address weaknesses in the design of controls and/or operating effectiveness are required. Full details of the audited areas and findings can be found in Appendix C.

ANNUAL AUDIT OPINION

12. The work undertaken has been performed in accordance with the agreed annual plan for 2017/18. The results of the work performed allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

13. The annual opinion for 2017/18 is 'generally satisfactory with some improvements required'. This opinion is predominately based on the evidence and results of the work carried out across the 23 reviews.
14. It should be noted that the audit coverage over the last three years has been limited by the resources available, and that a number of high-risk areas have not been audited for some time. As capacity decreases within the council, it is becoming increasingly more important to deploy greater audit scrutiny, to aid the council in ensuring that its resources are used effectively to manage risk exposure, and to successfully deliver desired outcomes.
15. There are four opinion levels that can be given these are:
 - (a) Satisfactory
 - (b) Generally satisfactory with some improvements required
 - (c) Major improvements required
 - (d) Unsatisfactory

STRATEGIC CONTEXT

16. The reviews undertaken by Internal Audit are an important part of the council's governance arrangements and are directed at ensuring that the council's system of control is effective in helping to deliver the council's objectives.

CONSULTATION

17. All Internal Audit reports are considered in draft by those who have been involved in the review, giving them the opportunity to correct any factual errors, and to comment on the practicality of any recommendations. All findings and recommendations can therefore be described as 'agreed'.

FINANCIAL / BUDGET IMPLICATIONS

18. There are no direct financial implications of this progress report. Some of the recommendations from Internal Audit may require additional resources, which will be part of the consideration when implementing recommendations. Unless the recommendations are significant, services are expected to meet the cost from existing budgets.

LEGAL IMPLICATIONS

19. The Accounts and Audit Regulations 2015 require that local authorities undertake an adequate and effective internal audit of their accounts and internal control.

EQUALITY AND DIVERSITY

20. 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, marriage and civil partnership. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

RISK MANAGEMENT

21. The key risk associated with this report is that the outcomes of internal audit reviews are ignored. Internal audit is an opportunity for weaknesses in control processes to be identified and for them to be highlighted to members.

RECOMMENDATION

22. To receive the progress report of the council's internal audit provider and consider where any further information or action is necessary. Appendix A
23. To consider the issues identified in the high risk report, and to seek reassurance that actions are being undertaken to address the findings. Appendix B
24. To receive the annual audit opinion for noting. Appendix C

APPENDICES ATTACHED

25. [Appendix A](#) - Progress Report against Plan
26. [Appendix B](#) - Internal Audit reports for the high risk 2017/18 areas.
27. [Appendix C](#) - Annual Audit Opinion for 2017/18

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