

AUDIT & GOVERNANCE COMMITTEE

Wednesday, 25 July 2018

ANNUAL INTERNAL AUDIT REPORT 2017-18 (REP1778)

EXECUTIVE SUMMARY	
1.	This report details the work undertaken by the Internal Audit Service for the year 2017-18 in accordance with the plan for the year presented to the Audit and Governance Committee on 15 March 2017.
2.	<p>This report is being presented to the Audit & Governance Committee in accordance with the Committee's terms of reference:</p> <p><i>'To consider the effectiveness of Internal Audit. To consider reports from the Head of Internal Audit on Internal Audit's performance during the year. These will include: Updates on the work of Internal Audit including key findings, issues of concern and actions taken by management as a result of Internal Audit work. Regular reports on the Quality Assurance Improvement Programme. Reports on instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether non-conformance is significant enough that it must be included in the Annual Governance Statement.</i></p> <p><i>To consider the Head of Internal Audit's Annual Report: The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement. The opinion of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of work supporting the opinion – these will assist the Committee in reviewing the Annual Governance Statement.</i></p> <p><i>To receive reports outlining the action taken where the Head of Internal Audit has concluded that management has accepted a level of risk that may be unacceptable or there are concerns about progress with the implementation of agreed actions'.</i></p>
3.	For the year 2017-18, Internal Audit Services operated in accordance with the Public Sector Internal Audit Standards (PSIAS), section 2450. The Standard requires the Head of Internal Audit to bring to the attention of the 'Audit Committee' an Annual Report detailing a range of issues.
4.	This Annual Report provides Members with an overview of the Internal Audit Service for 2017-18 as part of the Council's responsibility to ensure it has an effective Internal Audit function as required by the Accounts and Audit Regulations 2015.
5.	In addition, this report includes the Head of Internal Audit's Opinion on work for the year ending 31 March 2018. This 'Opinion' is required by the PSIAS and is an objective and evidence based opinion on all aspects of governance, risk management and internal control.

Is the report Open or Exempt?	Open
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Wards Affected:	All
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Cabinet Member:	CLlr Bruce Provan Cabinet Member for Resources
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Supporting Officer:	Mrs Siobhan Martin Head of Internal Audit Telephone Number: 01394 444254 Email address: siobhan.martin@eastsoffolk.gov.uk
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1. INTRODUCTION

1.1 This Annual Report provides the Committee with an overview of the Internal Audit Service for 2017-18, in accordance with the Public Sector Internal Audit Standards 2013 (amended 2016 and 2017) (PSIAS), detailing the following:

- The role/definition of Internal Audit Services.
- Update on Audit Partnership arrangements.
- An account of Internal Audit Resourcing in 2017-18.
- The effectiveness of Internal Audit Services.
- Conformance with the Public Sector Internal Audit Standards.
- Organisational independence and objectivity of Internal Audit.
- Performance / out-turn for 2017-18.
- An opinion on the adequacy of Management responses to Internal Audit advice and recommendations made in 2017-18.
- Whistleblowing investigations.
- Issues the Head of Internal Audit judged particularly relevant to be included in the Annual Governance Statement.

2 THE ROLE/DEFINITION OF INTERNAL AUDIT SERVICES AT THE COUNCIL

2.1 Internal Audit work independently and objectively within the Council to carry out a risk based programme of work to allow the Head of Internal Audit to give an opinion on the Council's control environment. This opinion is based on examination and evaluation of the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources by the Council.

2.2 In addition, Internal Audit Services carries out consultancy work which aims to add value and improve the efficiency and effectiveness of the Council's operations.

2.3 In both traditional audit work and consultancy work Internal Audit helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2.4 The Head of Internal Audit in a local authority plays a critical role in delivering the Council's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments, which support the statutory Annual Governance Statement.

2.5 The Council is required to complete an Annual Governance Statement, in advance of its end of year financial statements, and is required to:

1. Identify how the risk management processes are maintained and developed to ensure continuing effectiveness.
2. Disclose significant internal control issues.
3. Provide documented evidence of the assessment of the effectiveness of internal control and assurance that issues arising are being addressed.
4. Adhere to the CIPFA/SOLACE governance framework.

- 2.6 Audit reports completed during the 2017-18 financial year provide essential evidence for Heads of Service and Directors to prove the existence and adequacy of the internal control environment, which supports the Annual Governance Statement process.
- 2.7 Internal Audit Services also investigate any potential or actual internal frauds and irregularities that may arise within the partnership.
- 2.8 Internal Audit Services are members of the Midland Counties Chief Internal Auditor Group and the Suffolk Audit Partnership Board / Working Audit Partnership. This gives the service an opportunity to network, benchmark and discuss best practice to ensure the service can provide the Council with the best advice.

3. AN ACCOUNT OF INTERNAL AUDIT RESOURCING IN 2017-18

- 3.1 Suffolk Coastal District Council (SCDC) leads the Audit Partnership with Ipswich Borough Council (IBC) and Waveney District Council (WDC) and provides all strategic and operational management services along with a number of regularity and computer audit days to its partners. The Head of Internal Audit is shared across the three Councils.
- 3.2 The Audit Service has been recently restructured, contributing to both Councils' efficiency savings targets. The Audit Service now consists of 5.4 full time equivalents to service Suffolk Coastal and Waveney District Councils, with 1.7 full time equivalents provided to Ipswich Borough Council as part of a formal contract of professional audit and fraud services.
- 3.3 Resources will be monitored by the Head of Internal Audit and reports provided to the Audit and Governance Committee, Chief Executive and S151 Officer to ensure that Internal Audit resources remain adequate and effective. All engagements have been performed with proficiency (knowledge) and skills needed to perform the work (with senior direction as required) and due professional care, with built in quality reviews.
- 3.4 The Head of Internal Audit aims to achieve best practice and continues to take account of the issue of affordability at a time when all partners are looking to make substantial reductions in costs. The service has been vastly streamlined and continues to apply lean auditing risk based methodologies to its plan of work to ensure it is operating in an efficient and effective way.
- 3.5 Significant savings and income generation have been made in the service and the SCDC/WDC team is sufficiently staffed to enable the Head of Internal Audit to lead and direct an Internal Audit Service that is adequately resourced to ensure it is fit for purpose (CIPFA essential principle and a requirement of Public Sector Internal Audit Standards). The Audit Partnership continues to provide a functional service that is efficient and effective, striving to provide real value for money to the Council's operations.

4. UPDATE ON AUDIT PARTNERSHIP ARRANGEMENTS

- 4.1 2017-18 proved to be another successful year for all three Internal Audit Partners, i.e. SCDC, WDC and IBC. The Partnership has enabled each Council to call upon a far wider base of skills and knowledge and provides audit staff at all three Councils with a unique opportunity to use their particular expertise at partner authorities, to assist their professional development and to broaden their knowledge and skills.
- 4.2 All contract commitments have been met whilst delivering cost efficiencies and compliance with national standards.

5 THE EFFECTIVENESS OF INTERNAL AUDIT SERVICES

- 5.1 The Council's External Auditors, Ernst & Young, consider the work of Internal Audit, which feeds into their risk assessments in accordance with the Internal and External Audit Protocol.
- 5.2 There are detailed performance/monitoring processes within the team, including the application of a competency framework applied to all staff as part of the appraisal process.
- 5.3 One set of performance indicators monitors the quality and effectiveness of the service by asking managers to complete a Client Questionnaire. The results of the questionnaire also contribute towards the Auditors' annual assessment and personal development evaluation. Heads of Service and Team Leaders are invited to comment upon a number of quality issues and then provide an overall assessment on the audit review and whether they are very satisfied, satisfied, dissatisfied or very dissatisfied.
- 5.4 Feedback forms were issued to clients after each item of audit work and cover audit planning, conduct, communication, audit reporting arrangements and added value. Responses received have given an average of either satisfied or very satisfied, which is fed back in to the team for use in personal development and service review.
- 5.5 All Internal Auditors complete compulsory professional body continued professional development assessments each year to maintain professional accounting and auditing status. In addition, appraisals assess competency against CIPFA's guidance entitled 'The Excellent Internal Auditor – A Good Practice Guide to Skills and Competencies'. A training budget is also aligned to the team's professional/technical update programme.

6 A STATEMENT ON CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 6.1 The Relevant Internal Audit Standard Setters (i.e. Chartered Institute of Public Finance and Accountancy in respect of local government across the UK) have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013 (revised April 2017). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows: Definition of Internal Auditing, Code of Ethics and International Standards for the Professional Practice of Internal Auditing.
- 6.2 The objectives of the PSIAS are to: define the nature of internal auditing within the UK public sector; set basic principles for carrying out internal audit in the UK public sector; establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 6.3 The PSIAS apply to all public sector internal audit providers, whether in-house, shared services or outsourced.
- 6.4 The Standards require periodic self-assessments, and an assessment by an external person every five years.

- 6.5 An external review was completed in November 2016, carried out through a process of interview and document review by the Chartered Institute of Public Finance and Accountancy (the main PSIAS assessor in the UK).
- 6.6 The review identified near full compliance within the 300 plus tests, with no areas of non-compliance within the Standards that would affect the overall scope or operation of the internal audit activity.
- 6.7 An annual self-assessment was performed by the Head of Internal Audit in May 2018 to ensure continued compliance with the PSIAS.

7 ORGANISATIONAL INDEPENDENCE AND OBJECTIVITY OF INTERNAL AUDIT

- 7.1 In accordance with Public Sector Internal Audit Standards the internal audit activity must be independent and internal auditors must be objective in performing their work. An interpretation of independence can be described as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Head of Internal Audit has direct and unrestricted access to senior management and the Audit and Governance Committee. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.
- 7.2 Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.
- 7.3 The Head of Internal Audit must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The Head of Internal Audit must confirm to the Audit and Governance Committee, at least annually, the organisational independence of the internal audit activity. In the UK public sector this can be achieved by ensuring that the chief executive undertakes, countersigns, and contributes feedback to or reviews the performance appraisal of the Head of Internal Audit and that feedback is also sought from the chair of the Audit and Governance Committee.
- 7.4 The Council's Constitution, Financial Procedure Rules, Audit Charter and the job description of the Head of Internal Audit, along with the positioning of the Internal Audit Service within the Council, demonstrates the independence of the Internal Audit Service along with the practical application of its independence.

8 PERFORMANCE/OUTTURN FOR 2017-18

- 8.1 A risk based assurance opinion upon each area reviewed is provided which aims to be insightful, practical and future-focused, and promotes organisational improvement, accompanied (when appropriate) by tracked actions to be completed, which are owned. These are monitored by the Audit and Governance Committee.

8.2 Four categories are used to classify the overall level of assurance of the processes examined and the adequacy of the individual key control areas. They are defined as follows:

1. **Good** – All controls are being applied consistently and effectively. This means that all the control areas in the audit are being properly managed and the associated risks are being mitigated.
2. **Adequate** – Controls exist but there is some inconsistency in their application. This means that a few of the risks in the audit may need attention.
3. **Limited** – Some controls do not exist. This means that a reasonable number of the risks in the audit need attention.
4. **Unsatisfactory** – A significant number of controls do not exist and/or there are major omissions in the application of controls. This means that a significant number of risks in the audit are not being properly managed.

8.3 The table below constitutes a summary of the audit work undertaken in the year (planned audit coverage for 2017-18 was presented to the Audit and Governance Committee on 15 March 2017), which has enabled the Head of Internal Audit to provide an Annual Audit Opinion set out at Appendix A, on the overall adequacy and effectiveness of the Council’s internal control environment.

2017-18 Audit Area	Progress to Date	Audit Assessment Level
Accounting – Bank Reconciliation (SCDC & WDC)	Testing complete, report discussed, actions agreed and awaiting issue.	Good
Accounts Payable – Creditors (SCDC & WDC)	Complete.	Adequate
Accounts Receivable – Debtors (SCDC & WDC)	Testing complete, report discussed, actions agreed and awaiting issue.	Draft - Adequate
Anglia Revenues Partnership (ARP) (Bailiff Services) (SCDC & WDC)	Complete – this work was undertaken by one of the Partner Authorities within the ARP as part of the SLA.	Adequate
Annual Governance Statement (AGS) (SCDC & WDC)	Advice and best practice guidance currently being provided to enable the successful completion of the 2017-18 AGS. Continuous support and direction provided throughout the year.	Not Applicable
Asset Management (Including Fixed Asset Register) (SCDC & WDC)	Complete	Status Report
Car Parks (SCDC & WDC)	Complete	Adequate
Cash and Banking (SCDC & WDC)	Testing complete, report discussed, actions agreed and awaiting issue.	Draft - Adequate
Charities – sign off (WDC Only)	Complete	Not Applicable
Consultancy and Agency Usage (SCDC & WDC)	Testing complete, report discussed, actions agreed and awaiting issue.	Draft - Limited
Consultancy and Special Investigations (SCDC & WDC)	Provided on request throughout the year.	Not Applicable

Corporate Governance and Risk Management (SCDC & WDC)	Members of Corporate Governance Days and Corporate Risk Management Group. Provision of independent professional advice.	Not Applicable
Council Tax (SCDC & WDC)	Complete – this work was undertaken by one of the Partner Authorities within the ARP as part of the SLA.	Adequate
Data Protection (SCDC & WDC)	Work has been undertaken to implement the General Data Protection Regulation which came into force in May 2018.	Not Applicable
Disabled Facilities Grant – Grant Certification (SCDC & WDC)	Complete	Not Applicable
Grant Award Process (Enabling Communities Budget (ECB) Grant (SCDC only)	Complete	Adequate
Health & Safety Contract Monitoring within Partnerships (SCDC & WDC)	Complete	Unsatisfactory
Housing Benefits (SCDC & WDC)	Complete – this work was undertaken by one of the Partner Authorities within the ARP as part of the SLA.	Adequate
House Building Project (WDC only)	Advice and guidance not requested.	Not Applicable
Housing Rents (WDC only)	Testing complete, report in draft format.	tbc
IDOX/Uniform Project (SCDC & WDC)	Work carried forward into 2018-19	Not Applicable
Housing Repairs and Maintenance (WDC only)	Complete	Limited
Lowestoft Charter Trustees (WDC only)	Complete	Not Applicable
Members Requests (SCDC & WDC)	No requests received.	Not Applicable
Merger (SCDC & WDC)	Internal Audit Services were not requested during 2017-18	Not Applicable
National Fraud Initiative (SCDC & WDC)	Complete – part of the Corporate Fraud Annual Report 2017-18	Not Applicable
National Non-Domestic Rates (SCDC & WDC)	Complete	Adequate
Payroll (SCDC & WDC)	Complete	Adequate
Staff Declarations of Interest/Gifts and Hospitality (SCDC & WDC)	Testing complete, report in draft format.	Limited
Strategic and Other Partnerships (Contract Management) (SCDC & WDC)	Complete	Status Report
Treasury Management (SCDC & WDC)	Complete	Good

- 8.4 The work performed by Internal Audit Services during 2017-18 has provided assurances, which have directly improved the governance environment, protected the Council's assets and facilitated monetary efficiencies. Listed below is additional work also performed by Internal Audit Services during the year:
1. Compliance with Public Sector Internal Audit Standards (PSIAS). Ongoing quality assurance and improvement programme to ensure sustained compliance with requirements of the Public Sector Internal Audit Standards.
 2. Whistleblowing and Head of Service investigations – Provision of investigative and report writing services to partner authorities.
 3. Support on disciplinary cases, as investigators or hearing officers.
 4. Strategic direction and legal advice provided over the Data Protection Act. The Head of Internal Audit is the Council's qualified Data Protection Officer.
- 8.5 Internal Audit Services continue to provide advice and support towards a number of corporate projects including those within the areas of Corporate Governance, Annual Governance Statement and the Corporate Risk Management Group.
- 8.6 Full reports are circulated to Members of the Audit and Governance Committee as a matter of course. Copies are also sent to the Senior Management Team and the relevant Cabinet Member, as well as those members of staff who assisted in the completion of the audit review. The full final reports are also posted on the Members confidential area on the Intranet.
- 8.7 The progress against delivery of recommendations is actively pursued by Internal Audit Services and is regularly reviewed by the Audit and Governance Committee.

9 AN OPINION ON THE ADEQUACY OF MANAGEMENT RESPONSES TO INTERNAL AUDIT ADVICE AND RECOMMENDATIONS MADE IN 2017-18

- 9.1 From the reports produced, recommendations for improvement ranging from low to high were proposed by Internal Audit and accepted by Management. The implementation of Internal Audit recommendations rests with Management. There were no instances of a recommendation relating to significant internal control issues that were not accepted by Management. The Audit Manager monitors outstanding recommendations on a regular basis to ensure that the due dates set for meeting recommendations are being met. Any instances of serious delay or failure to meet the due date are reported to Corporate Management Team and then, if necessary, to the Audit and Governance Committee.
- 9.2 Internal Audit Services is satisfied that Management has acted upon the advice and recommendations put forward throughout the year. Where responses have been received evidence has been forthcoming. At the year-end recommendations outstanding are being actively followed up. Areas of concern are listed within the Head of Internal Audit's Annual Opinion attached as Appendix A.
- 9.3 There are three status levels for recommendations made by Internal Audit Services.
1. **Complete** – the audit recommendation has been fully implemented.

2. **Pending** – the agreed date for implementation has not yet been reached.

3. **Outstanding** – the agreed date for implementation has not been complied with.

9.4 Failure to implement agreed recommendations may have a detrimental effect on the Council's internal control environment and any shortcomings will adversely impact on the Annual Audit Opinion and would warrant reporting in the next Annual Governance Statement.

9.5 A detailed report is presented quarterly to the Audit and Governance Committee on the status of agreed Internal Audit recommendations. At the year-end eight agreed recommendations remain outstanding and associated control risks (where necessary) are factored into the Head of Internal Audit Opinion attached as Appendix A, and within the summary listed at section 10.

10. SUMMARY OF OVERARCHING AUDIT FINDINGS TO BE INCLUDED IN THE ANNUAL GOVERNANCE STATEMENT

10.1 Internal Audit Services wish to highlight three key areas where governance and controls require improvement.

- Contract Management – The Council's strategic governance arrangements over contracts requires further strengthening, specifically around the Procurement Strategy and Contracts Register.
- Asset Management – The Council's strategic governance arrangements with regards to Asset Management requires improvement, specifically around the Asset Management Strategy and centralised Asset Register.
- Health and Safety Duties from Partner Organisations – Meaningful evidence based information over health and safety duties and outcomes requires regular monitoring by the Council of its contracted Partners.

10.2 All the issues raised by the Head of Internal Audit have been incorporated within the Council's statutory Statement of Accounts 2017-18 as part of the Annual Governance Statement, which will be presented to the Audit and Governance Committee and Council.

11. AN OPINION ON THE OVERALL ADEQUACY AND EFFECTIVENESS OF THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT

11.1 For the 2017-18 year, the Head of Internal Audit's Annual Opinion states that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system. There is no formal qualification to this opinion but it has been highlighted that significant improvements are required in the three areas set out in Section 10.

11.2 There have been no formal reports of internal frauds or Whistleblowing cases to the Head of Internal Audit.

11.3 Significant issues raised by Internal Audit Services are recorded in the Council's Corporate Risk Register, which is monitored at Corporate Governance meetings.

12. HOW DOES THIS RELATE TO THE EAST SUFFOLK BUSINESS PLAN?

12.1 This report has no direct named links to the East Suffolk Business Plan but it supports the governance environment required in order to deliver the entire Plan.

13. FINANCIAL AND GOVERNANCE IMPLICATIONS

- 13.1 Internal Audit recommendations and advice support a robust corporate governance framework. Delivering the Internal Audit Service Plan in addition to the reactive work performed during the year is an essential element in mitigating the risk of losses arising from error, irregularity and fraud.
- 13.2 Efficiency, effectiveness and economy reviews form part of the work undertaken in the year. The work of Internal Audit Services represents a fundamental function in delivering the Council's Corporate Governance responsibilities.
- 13.3 The Local Government Act 1972 and the Accounts and Audit Regulations 2015 require a relevant authority to '*...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.*'
- 13.4 The implications and benefits of agreed recommendations produced by the audit work affect all areas by improving controls and processes, which contribute towards efficient and effective management of services.

14 CONSULTATION

- 14.1 The Cabinet Member for Resources and the Senior Management Team have been consulted on the content of this report.

15. REASON FOR RECOMMENDATIONS

- 15.1 To ensure the Committee fulfils its terms of reference and supports the Internal Audit process, enabling good governance over public funds.

RECOMMENDATIONS	
1.	That the Committee comments upon the content of the Internal Audit Annual Report 2017-18.
2.	That the Committee comments upon the Head of Internal Audit's Annual Audit Opinion for 2017-18, as set out in Appendix A to this report.

APPENDICES:	
Appendix A	Head of Internal Audit Opinion 2017-18

BACKGROUND PAPERS		
Date	Type	Available From
March 2017	Annual Audit Plan 2016-17	Head of Internal Audit
May 2018	Internal Audit Information Database	
2017-18	Internal Audit Reports	
April 2017	Public Sector Internal Audit Standards	

WAVENEY DISTRICT COUNCIL**HEAD OF INTERNAL AUDIT'S ANNUAL AUDIT OPINION 2017-18**

This document is the Head of Internal Audit's annual statement on the adequacy and effectiveness of the systems of governance, risk management and internal control of the Council for the year ended 31 March 2018.

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDITORS IN RELATION TO INTERNAL CONTROL

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Head of Internal Audit to provide an annual overall assessment of the robustness of the internal control system. The internal auditor cannot be expected to give total assurance that control weaknesses or irregularities do not exist.

SOUND INTERNAL CONTROLS

The main objectives of the Council's internal control systems are:

- To ensure adherence to management policies and directives in order to achieve the Council's objectives;
- To safeguard assets and protect the interests of the Council;
- To secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

A sound system of internal control therefore provides reasonable, but not absolute, assurance that the Council will not be hindered in achieving its objectives or in the orderly and legitimate conduct of its business by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against any organisation failing to meet its objectives or all material errors, losses, fraud, or breaches of laws or regulations.

THE WORK OF INTERNAL AUDIT

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Internal Audit Service operates in accordance with the Accounts and Audit Regulations (2015), Public Sector Internal Audit Standards and Local Government Application Note (2013). The section undertakes a risk based annual programme of work approved by the Audit and Governance Committee. The strategic audit plan is based on audit work carried out in preceding years, which is amended on an on-going basis to reflect evolving risks and changes within the Council since that date.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports. The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and accepted the risk of not taking action. Significant matters arising from internal audit work are reported to the Chief Executive and the Audit and Governance Committee.

MISSION OF INTERNAL AUDIT

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

BASIS OF OPINION

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

- The planned audit work undertaken by internal audit during the year to 31 March 2018;
- Consultancy and additional work requested and performed by the Service throughout the year;
- The preparation of the strategic audit plan;
- Reports issued by the Council's external auditors;
- My knowledge of the Council's governance, risk management, performance monitoring and internal control arrangements; and
- The on-going work with management to assess and provide assurance on the efficiency, effectiveness and reliability of key systems.

OPINION

I am required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. Although Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist, due to time and other constraints of audit coverage, it is my opinion that **reasonable assurance** can be placed upon the adequacy and effectiveness of the Council's systems of governance, risk management and internal control in the year to 31 March 2018.

I wish to highlight the following key areas where governance and controls are weak. Senior Officers have agreed an improvement action plan as part of the Annual Governance Statement assurance process; these are also monitored within the Corporate Risk Register and overseen by the governance arrangements in place at the Council.

- Contract Management – The Council's strategic governance arrangements over contracts requires further strengthening, specifically around the Procurement Strategy and Contracts Register.

- Asset Management – The Council’s strategic governance arrangements with regards to Asset Management requires improvement, specifically around the Asset Management Strategy and centralised Asset Register.
- Health and Safety Duties from Partner Organisations – Meaningful evidence based information over health and safety duties and outcomes requires regular monitoring by the Council of its contracted Partners.

In addition to these three areas the challenge from an audit perspective, as recognised by management, remains the financial context in which the Council is required to operate. The impact of delivering the further programme of savings will impact upon all areas of the business and its control and governance environment. There is extensive planning and ongoing consultation on the budget proposals and programmes for transformation are being set in business plans.

Siobhan Martin
Head of Internal Audit
Waveney District Council

May 2018