

Report sponsor: Strategic Director of Corporate Resources  
Report author: Head of Internal Audit

## **Internal Audit Annual Report 2018/19 and Head of Internal Audit Opinion**

### **Purpose**

- 1.1 This report provides Committee with the Annual Internal Audit Opinion as required by the Public Sector Internal Audit Standards, together with a summary of the work that the Council's Internal Audit Service has undertaken during 2018/19.
- 1.2 The report also provides information on the performance of the Internal Audit service in 2018/19 and an assessment of the conformance against the Public Sector Internal Auditing Standards.

### **Recommendations**

- 2.1 To consider and note the Internal Audit Annual Report 2018/19.

### **Reasons**

- 3.1 The Audit and Accounts Committee is responsible for providing assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.

### **Supporting information**

- 4.1 The Public Sector Internal Audit Standards (PSIAS) requires that the 'Chief Audit Executive' (in the case of Derby City Council the Head of Internal Audit) must deliver an annual internal audit opinion and report that can be used by the Council to inform its Annual Governance Statement.
- 4.2 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 also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

- 4.3 Internal Auditing is defined as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. (Public Sector Internal Audit Standards – PSIAS).
- 4.4 The Council’s internal audit service is provided by the Central Midlands Audit Partnership. Derby City Council is the host authority for the Partnership.
- 4.5 There are currently many changes both internal and external which have an effect on the Council’s operations. All change within an organisation leads to an element of risk and the proper objective and independent consideration of these risks is vital to the operation of an organisation.
- 4.6 The Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on the Role of the Head of Internal Audit in Public Service Organisations states that “The head of internal audit in a local authority plays a critical role in delivering the organisation’s strategic objectives by championing best practice in governance, objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control”.
- 4.7. The work of internal audit over the year allows the Head of Internal Audit to form the annual internal audit opinion as required by the PSIAS. The opinion is set out within the annual internal audit report (see Appendix 1) which provides this Committee with a level of assurance that internal audit can provide on the Council's arrangements for governance, risk management and internal control.
- 4.8 The audit opinion relative to the organisation as a whole could fall into one of the following 3 categories:
- Inadequate System of Internal Control – Findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
  - Adequate System of Internal Control Subject to Reservations – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
  - Satisfactory System of Internal Control - Findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended.

- 4.9 The Head of Internal Audit's opinion for 2018/19 is that there is an **"Adequate System of Internal Control Subject to Reservations"**. This opinion reflects the findings of the A52 Investigation undertaken by Internal Audit during the financial year and the level of system weaknesses found and the number of audits that have resulted in assurance ratings of either "limited" or "none". Excluding the school audits, 19.7% of audits were rated as limited assurance or no assurance. However, the Head of Internal Audit is satisfied that remedial action is sufficiently progressing to address these weaknesses.

## **Public/stakeholder engagement**

- 5.1 None

## **Other options**

- 6.1 None

## **Financial and value for money issues**

- 7.1 None

## **Legal implications**

- 8.1 None

## **Other significant implications**

- 9.1 None

This report has been approved by the following people:

<b>Role</b>	<b>Name</b>	<b>Date of sign-off</b>
<b>Legal</b>		
<b>Finance</b>		
<b>Service Director(s)</b>		
<b>Report sponsor</b>	Strategic Director of Corporate Resources	10 June 2019
<b>Other(s)</b>		

<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 – Annual Internal Audit Report 2018/19