

**Eden District Council**  
**Accounts and Governance Committee**  
**28 June 2018**

## Annual Review of Effectiveness of System of Internal Control

<b>Portfolio:</b>	None
<b>Report from:</b>	Director of Finance
<b>Wards:</b>	All Wards
<b>OPEN PUBLIC ITEM</b>	

### 1 Purpose

- 1.1 It is a statutory requirement that the Council conducts ‘a review of the effectiveness of the system of internal control’, at least annually (Accounts and Audit Regulations 2015). This report sets out my review, as Head of Internal Audit, of the effectiveness of the Council’s Internal Audit in 2017-2018.

### 2 Recommendation

Members confirm the assessment that the Council had an effective system of internal control during 2017-2018.

### 3 Report Details

- 3.1 The Accounts and Audit Regulations 2015 set the statutory framework for how councils must order their financial affairs. Regulation 6(1)(a) requires that each financial year a council must conduct a review of the effectiveness of the system of internal control. This report sets out my review for Members’ consideration. It also informs the Annual Governance Statement, which was considered by this Committee on 12 April 2018 (report F27/18).
- 3.2 Internal Audit is the key element in providing assurances about the adequacy of the Council’s internal control system. The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced a local government application note in the United Kingdom for the Public Sector Internal Audit Standards (PSIAS). The Accounts and Audit Regulations deem this a ‘proper practice’. This means that a Council’s Internal Audit system must be in compliance with all material provisions of PSIAS.
- 3.3 The Council’s Internal Audit service is provided partly in-house by Eden Internal Audit Service (EIAS) and partly by a contractor. The contractor is TIAA Limited. As the Council’s Head of Internal Audit, I commission audit work from both sources to fulfil the annual Audit Plan that is set by this Committee. In the previous report on this agenda, I presented the Annual Internal Audit Report, which was based on the annual reports to me by EIAS and TIAA Limited.
- 3.4 As noted below, Internal Audit alone cannot give all the assurances required.
- Assessment of Effectiveness
- 3.5 I have taken the following into account in making my assessment of effectiveness:
- **Compliance with proper practices** – both EIAS and TIAA Limited have confirmed to me that they comply in all material aspects with the PSIAS application note;

- **External audit reliance on Internal Audit's work** - the Council's external auditor, Grant Thornton, feels able to rely on the work of Internal Audit to meet its requirements;
- **Quality of audit reports** - I see all audit reports issued. I consider that the reports are of an acceptable standard and, as well as providing assurance on the soundness of internal control, they provide practical recommendations for improvement. During 2017-2018, I regularly met with both EIAS and TIAA Limited to discuss their work, which gives me a clear insight into the professional competence of senior audit staff;
- **Auditee views** - all auditees were asked for their views on the work of EIAS and TIAA Limited as part of the regular satisfaction surveys that are issued at the conclusion of each audit. The average assessment was 'good';
- **Adequacy of resources** –resources in 2017-2018 were:
  - TIAA Limited: 80 bought-in days;
  - EIAS: full time Senior Auditor. As set out in the Audit Plan, this provides 135 audit and consultancy days, plus a variety of non-audit roles, such as administration of the Council's involvement in the National Fraud Initiative.

I consider that this level of resources was adequate to provide an effective Internal Audit service;

- **Audit Committee functions** - an effective system of Internal Audit requires that the functions of an audit committee are carried out, insofar as they concern Internal Audit. This Committee performs the role of audit committee;
- **Audit Plan completion** - the Annual Internal Audit Report (see previous report on the agenda) details the completion of the Audit Plan. Audits of all Fundamental Financial Systems were completed to plan during the year;
- **Other assurances - Internal Audit itself cannot directly provide all the required assurances.** This is particularly the case at the Council where internal resources are directed to major financial systems that feed into the financial statements and to providing an overview of governance arrangements. To supplement this, the Council's Management Team were asked to give other assurances to me, as Head of Internal Audit. The following was considered at its meeting on 15 May 2018:

*'Annually, a Council's audit committee (or equivalent) has to confirm that the Council has proper internal controls. Much of this assurance comes from the work of Internal Audit. However, Internal Audit's work cannot cover all the systems and procedures that give assurance on internal control. This can best be covered by Management Team considering the relevant assurance functions and confirming that, to the best of their knowledge, they are working effectively. There is considerable overlap between such assurances. Management Team's review of the Annual Governance Statement was undertaken on 20 March 2018.'*

*These assurance functions include:*

- *Head of Paid Service,*
- *Monitoring Officer;*
- *S151 Officer;*
- *Corporate Governance;*
- *Financial Management;*
- *Risk Management;*
- *Performance Management;*
- *Human Resources;*
- *Data Quality;*
- *Asset Management;*
- *Health and Safety.*

Management Team has confirmed that the other monitoring functions (excluding Internal Audit), as set out above, provided robust assurance of the proper operation of the Council's systems and procedures:

- **Governance** – queries have been raised in the past regarding the Council's Chief Finance Officer (the Director of Finance) also having the role of Head of Internal Audit. This has arisen because it is a practical way of operating. In particular, it facilitates the approach where Internal Audit is provided partly in-house and partly externally. It also provides a resource for audit management (co-ordinating the annual plan, producing monitoring reports for Members) that would otherwise draw the Council's limited resources away from actual audit work. The main risk in this approach is that the independence of Internal Audit could be compromised as the Director of Finance has line management responsibility for many of the areas being audited. However, both the contractor and EIAS are clear that, if needed, they can report directly to the Council's Chief Executive, or this Committee. This is set out in paragraph 7.7 of the Council's Accounting and Audit Rules

3.6 Taking all the above factors into account, I am of the view that, during the year 2017-2018, this Council had an effective system of internal control.

## **4 Policy Framework**

4.1 The Council has four corporate priorities which are:

- Decent Homes for All;
- Strong Economy, Rich Environment;
- Thriving Communities; and
- Quality Council.

4.2 This report meets the Quality Council corporate priority.

4.3 Whilst the work of Internal Audit may ultimately be linked to many of the Council's corporate aims and objectives, its main impact will be under the 'theme' of a 'Quality Council'. Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. Internal Audit work thereby meets both statutory requirements and contributes to the achievement of the Council's agreed priorities and objectives.

## **5 Consultation**

5.1 There has been no consultation with Ward Councillors or Portfolio Holders.

## 6 Implications

### 6.1 Financial and Resources

- 6.1.1 Any decision to reduce or increase resources or alternatively increase income must be made within the context of the Council's stated priorities, as set out in its Council Plan 2015-2019 as agreed at Council on 17 September 2015.
- 6.1.2 As previously stated, one of the purposes of Internal Audit is to ensure the '*economic, efficient and effective use of resources*'. Many of the recommendations made as a result of audit work are based on achieving this requirement and are therefore likely to result in cost savings as a result of improved working methods, reducing the risk of loss, or waste, through improved controls. Such savings are not generally easy to quantify in pure financial terms, but hopefully will be reflected in improvements in performance indicators where applicable.

### 6.2 Legal

- 6.2.1 It is a statutory requirement under the Accounts and Audit Regulations 2011 that a local authority undertakes a review of the effectiveness of its Internal Audit at least annually. Advice from the Accounting and Audit Standards Panel has been used to interpret some aspects of the regulations.

### 6.3 Human Resources

- 6.3.1 There are no Human Resources implications.

### 6.4 Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	There are no implications
Health, Social Environmental and Economic Impact	There are no implications
Crime and Disorder	An effective system of internal control can only have a positive implication in terms of minimising the likelihood of fraud, corruption, or criminal misconduct taking place within the Council
Children and Safeguarding	There are no implications

### 6.5 Risk Management

Risk	Consequence	Controls Required
An ineffective Internal Audit system is operating	Ineffective internal audit, resulting in poor systems' administration and increased risk of theft and fraud	Effective systems control and Internal Audit in place

## 7 Other Options Considered

- 7.1 No other options have been considered.

## 8 Reasons for the Decision/Recommendation

- 8.1 To enable the Council to conduct its 'annual review of the effectiveness of the system of internal control'.

## Tracking Information

<b>Governance Check</b>	<b>Date Considered</b>
<b>Chief Finance Officer (or Deputy)</b>	1 May 2018
<b>Monitoring Officer (or Deputy)</b>	16 May 2018
<b>Assistant Director</b>	Not Applicable

**Background Papers:**      **Accounts and Audit Regulations 2015**  
                                 **PSIAS**  
                                 **Satisfaction questionnaires**  
                                 **Committee reports**  
                                 **Audit reports**  
                                 **CIPFA Local Government Application Note for UK PSIAS**

**Appendices:**              **None**

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