

**INTERNAL AUDIT – ANNUAL REPORT 2017/18**

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**1.0 INTRODUCTION**

- 1.1 The purpose of this report is to advise the Audit and Scrutiny Committee (the Committee) of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2017/18 and advise the Committee of the contents of the Chief Internal Auditor's (CIA) independent annual opinion on the effectiveness of the Council's risk management, internal control and governance processes.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) became effective on 1st April 2013 and require that:

*“The chief audit executive [ABC: Chief Internal Auditor] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.*

*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.”*

- 1.3 Attached as appendices to this report are:
- Appendix 1 – Summary of the audits completed in 2017/18
  - Appendix 2 – Internal Audit Opinion

**2.0 RECOMMENDATIONS**

- 2.1 The Audit and Scrutiny Committee endorses the content of this report and the associated annual opinion of the CIA.

**3.0 DETAIL**

- 3.1 Internal Audit is an independent and objective assurance function designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the Council's risk management, internal control and governance processes.
- 3.2 Internal Audit's purpose, authority and responsibilities are set out in detail in the Internal Audit Charter, which was most recently approved by the Committee in March 2018. Internal Audit reports its outputs regularly

throughout the year to the Committee. The Committee also approves Internal Audit's annual plan and monitors performance of the function.

- 3.3 The risk based audits contained within the 2017/18 Internal Audit Annual Plan are shown in the table included at Appendix 1. This shows the overall audit opinion for each audit and the number and significance of agreed actions. Due to the change in CIA in October 2017 one audit (Organisational Culture) has been rolled forward into 2018/19. This was reported to the Committee in December 2017.
- 3.4 Internal audit activity is planned to enable an independent annual opinion to be given by the CIA on the adequacy and effectiveness of internal controls within the authority, including the systems that achieve the corporate objectives of the Council and those that manage the material risks faced by the authority. It should be noted, however, that the presence of an effective internal audit function contributes towards, but is not a substitute for, effective control and it is primarily the responsibility of line management to establish internal controls so that the Council's activities are conducted in an efficient manner, to ensure that management policies and directives are adhered to and that assets and records are safeguarded.
- 3.5 Internal Audit operates as part of the Chief Executive's Unit and whilst I report to the Council's Head of Strategic Finance on an administrative basis, I also have unrestricted access to those charged with governance, specifically: Elected Members; the Chief Executive; Executive Directors including the Executive Director for Customer Services who is the Council's Monitoring Officer. I am pleased to confirm that Internal Audit operated throughout 2017/18 with no impairments or restrictions in scope or independence.
- 3.6 Internal Audit activity during the year was undertaken in accordance with the Internal Audit Annual Plan which was approved by the Committee in March 2017. During the year I made one amendment to the list of planned assignments included in the approved plan to enable the function to respond flexibly to changing circumstances since the plan was developed and approved. This change was verbally reported to the Committee in December 2017.
- 3.7 As reported to the Committee in March 2018 a number of changes have been made to the Council's risk management processes and a new risk management manual has been approved by the Strategic Management Team (SMT) and the Policy and Resources Committee. These improvements will be reported in the Council's Annual Governance Statement which will be incorporated into the Council's annual financial statements.
- 3.8 I am pleased to report that council officers have made excellent progress in terms of implementing audit recommendations with the majority of those currently outstanding being issues highlighted in reviews which have only recently been completed. Furthermore there are robust follow up procedures in place with reports taken to the SMT on a monthly basis.

- 3.9 Recommendations for improvement from this EQA process have been added to Internal Audit's 'Quality Assurance Improvement Plan' along with any other areas for improvement identified internally by the team. This plan is subject to quarterly review and update as a standing agenda item at the team's quarterly development meetings.
- 3.10 There is a formal requirement for me to prepare an annual opinion on the Council's organisation's internal control system. The opinion is presented to members of the Committee and is intended to provide independent and objective assurance as to the adequacy and effectiveness of internal controls within the Council.
- 3.11 In addition to the work carried out by internal audit, my opinion is also informed by:
- the work of External Audit
  - the work of other external inspection agencies who report on the Council's work
  - statements of assurances provided by the Chief Executive, Executive Directors and Heads of Service providing their opinion on the effectiveness of control, governance and risk management within their areas of responsibility.
- 3.12 My evaluation of the control environment is informed by these sources and in bringing these together, consideration has been given to whether there is evidence that any key controls are absent, inadequate or ineffective and whether the existence of any weaknesses identified, taken independently or with other findings, significantly impairs the Council's overall systems of internal control. Wider issues relating to the Council's corporate governance and risk management arrangements have also been considered.
- 3.13 The nature of individual audit assignments is such that most Internal Audit reports identify some weaknesses or areas where scope for improvement exists. However, I am pleased to report that, generally across the Council, there continues to be a strong recognition amongst management of the importance of proportionate but effective internal controls. Senior management has also established an operating culture where good standards of governance are seen as a key requirement in the way in which the Council conducts its activities.
- 3.14 During work undertaken in 2017/18 there have been instances where the control environment was not strong enough or complied with sufficiently to prevent risks to the organisation. In these cases, Internal Audit has made recommendations to further improve the systems of control and compliance. Although sometimes significant to the control environment in place for the individual system or areas that have been audited, I do not consider these weaknesses material enough to have a significant impact on the overall opinion on the adequacy of the Council's control environment at the year end.
- 3.15 My formal annual Internal Audit opinion on the soundness of the Council's internal control systems is presented at Appendix 2. Overall, the results of the work of Internal Audit in 2017/18 taken with other information available to me did not lead me to conclude that the

Council's overall systems of internal control were significantly or materially impaired.

- 3.16 It has been a challenging year for the internal audit team. They have dealt with a change in CIA, with a new appointment in October 2017, and a number of changes to procedure and reporting which were introduced in the period between that appointment and the end of the financial year. Despite this they have worked well to deliver the audit plan and have responded well to the changes they have been asked to implement. It is my opinion that the profile of Internal Audit continues to improve within the Council and this will continue in 2018/19 with the roll out of a new approach to scrutiny.
- 3.17 On behalf of my team I would like to thank all Council staff who have assisted Internal Audit during the course of our work throughout 2017/18 and to thank senior management and elected members for the consideration and due regard given to our work.

#### **4.0 CONCLUSION**

- 4.1 Subject to the matters listed in the Annual Governance Statement reasonable assurance can be taken that the systems of governance and internal control are operating effectively. Internal Audit continues to develop and improve as a service.

#### **5.0 IMPLICATIONS**

- 5.1 Policy – None
- 5.2 Financial – None
- 5.3 Legal – None
- 5.4 HR – None
- 5.5 Equalities– None
- 5.6 Risk– None
- 5.7 Customer Service– None

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**19 June 2018**

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#### **APPENDICES**

1. Summary of the audits completed in 2017/18
2. 2017/18 Internal Audit Opinion