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**INTERNAL AUDIT ANNUAL REPORT 2017-18**

**REPORT OF THE HEAD OF FINANCE**

**AGENDA ITEM: 11.1**

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**Reason for this Report**

1. The Audit Committee's new Terms of Reference requires that Members consider reports from the Audit Manager on Internal Audit's performance during the year.
2. At the end of each financial year, a report is prepared providing an overview of the approach adopted to audit assignments, and detailing the work undertaken by the Audit teams over the past 12 months. This is shared with the Section 151 Officer and Audit Committee.

**Background**

3. The Internal Audit Charter 2017-18 and the Audit Plan 2017-18, were reported to the Audit Committee on 14 March 2017, outlining the work plan for the Audit Section. During the year, the Audit Committee have received progress reports which details Internal Audit's progress against the Audit Plan.
4. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence is maintained as the Head of Finance reports functionally to the Audit Committee for all audit-related matters. The Head of Finance reports administratively and otherwise professionally to the Corporate Director, Resources.
5. The Annual Report (attached at Annex 1) sets out the annual reporting process, provides a review of internal control and the opinion of the Chief Audit Executive. The report also contains a summary of work performed and the productivity performance of the Internal Audit function as of 31 March 2018.

**Issues**

6. The Council has a duty to maintain an adequate and effective system of internal audit of its accounting records and internal control. In addition, the Council has a duty to prepare an annual governance statement. The Council's Draft Annual Governance Statement (AGS) is considered later in this Committee's meeting under the item for the Draft Statement of Accounts. Contained within the draft AGS will be the annual internal audit opinion, as stated in the Annual Report.
7. The report sets out that, based on the programme of audit work undertaken and review of key governance documents, the application of the overall framework for control within the Council for 2017/18 is effective with opportunity for improvement.

Section 2 of the Report contains the opinion and sets out the rationale of how internal control has been reviewed and improvements have been put in place, such as the updating of the Council's financial Procedure Rules and Contract Standing Orders & Procurement Rules.

8. Sections 3 and 4 set out a summary of work performed, details of audit reports issued and the progress made against recommendations made. The Annual Report highlights the issuing of 125 audit reports resulting in 442 recommendations. A key success factor is that 100% red recommendations, from 2017-18, have been actioned. The progress of red / amber recommendations, which is currently 54.8%, will be reported in September's audit Committee.
9. The Internal Audit function remains committed to delivering the highest professional standards and the Annual Report details the methods and key performance measures. The report highlights that for the majority of the year 80% of all audit reports were delivered within six weeks. Audit Customer feedback continues to be positive overall with 88% of responses identifying that audit offered added value to managers.
10. In addition to the overview of work undertaken, and its outcomes provided by the Annual Report, a peer review of internal audit has been conducted by the Chief Audit Executive of RCT, who judged the Cardiff Internal Audit function to be conforming to the Public Sector Internal Audit Standards. Significant investment is also being made in the Internal Audit Team with four auditors currently being supported towards the Institute of Internal Auditors qualification. This investment will provide a level of resilience to the internal audit function going forward.

### **Reasons for Recommendations**

11. To provide Audit Committee Members with an overview of Internal Audit activity during 2017-18.

### **Legal Implications**

12. There are no direct legal implications arising from this report.

### **Financial Implications**

13. There are no direct financial implications arising from this report.

### **RECOMMENDATIONS**

14. That the Committee note the report.

**IAN ALLWOOD**  
Head of Finance  
26 June 2018

The following reports are attached:

Annex 1 - Internal Audit Annual Report 2017-18