

AUDIT COMMITTEE: 25 JUNE 2019

INTERNAL AUDIT ANNUAL REPORT 2018-19

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 12.3

Reason for this Report

1. The Audit Committee's Terms of Reference requires that Members consider the Audit Manager's annual report including the:
 - opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control
 - summary of the work supporting the opinion the statement of the level of conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN), and
 - results of the Quality Assurance and Improvement Programme (QAIP) that support the statement.

Background

2. The Internal Audit Charter 2018-19 and the Audit Plan 2018-19, were approved by the Audit Committee on 27 March 2018, to document matters including the purpose, authority and responsibility of the Audit Section, and the planned audit programme of work. The Audit Charter was incrementally adjusted and approved by Audit Committee on 13 November 2018, to formalise the responsibilities and authority of the new Audit Manager (Chief Audit Executive), following appointment in October 2018.
3. During the year, the Audit Committee has received detailed progress reports outlining the work and progress against the Audit Plan, as well as the key findings, trends and risk-based changes to planned work. The Audit Committee has also received assurance from the Audit Manager throughout 2018 on ongoing organisational independence, and continued conformance with the Public Sector Internal Audit Standards (PSIAS).
4. In line with the provisions of the PSIAS (1100), organisational independence has been achieved throughout 2018/19. The Audit Manager reports administratively to the Head of Finance (Deputy Section 151 Officer) and has direct reporting access to the Chief Executive, the Chair of Audit Committee and all elected Members where required. The same direct access was available to the Head of finance during his period of management, who reported administratively to the Corporate Director Resources (Section 151 Officer).
5. The Annual Report (attached at Appendix A) provides a review of internal control environment of the Council and the opinion of the Audit Manager. The report details the audit work completed to support the opinion, and assurance of ongoing conformance with the PSIAS, as reaffirmed through annual review against the CIPFA Local Government Application Note (as updated for 2019) and the results of the Quality Assurance and Improvement Programme (QAIP).

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) has been considered earlier in this Committee meeting. Contained within the draft AGS is the annual Audit Manager opinion, as included within the Annual Report.
7. The Annual Report sets out that, based on the programme of audit work undertaken to assess internal controls and reviews of governance and risk management arrangements, the application of the overall framework for control within the Council for 2018/19 is considered as '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.
8. Sections 3 and 4 summarise the work performed, provide details of audit reports issued, and the progress made against recommendations raised. Internal Audit completed 120 audit engagements in 2018/19 through which 314 recommendations were accepted by management. Overall, 67% of recommendations raised were completed within the agreed timeframe, for which ongoing attention is given through regular following up progress with audit clients, and the practice of reporting all recommendations and management progress updates to the Audit Committee, at each Committee meeting.
9. The QAIP is, according to the PSIAS '*designed to enable an evaluation of the internal audit activity's conformance with the **Standards** and an evaluation of whether internal auditors apply the **Code of Ethics**. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.*' The QAIP developed for Cardiff Council's Internal Audit Team has been included in a recent compilation of good practice CIPFA case studies 'Leading internal audit in the public sector – principles into practice, 2019'.
10. The Annual Report outlines how, through application of the QAIP, assurance is provided of ongoing conformance with the PSIAS and application of the Code of Ethics. An element of the review was an Audit Manager assessment against the LGAN, which breaks down the requirements of the PSIAS into a detailed self-assessment of conformance. Through this review, the Audit Manager can report conformance with the PSIAS, supported by the LGAN through the operation of the Internal Audit Team and its work, upon which the annual opinion is provided.
11. 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 78% of audit reports were delivered within six weeks. Audit client feedback continues to be positive overall with 79% of responses identifying that audit offered added value to managers. Sustained focus is given to maintaining and improving the diverse skills and professional qualifications of the Internal Audit Team. Auditor staff hold various qualifications appropriate to their work, including CIPFA, IIA and AAT. At the end of 2018/19, three members of staff (2.5 FTE) were being supported in their studying for the CIA qualification of which two were studying towards their final exam.
12. The Annual Report includes a number of appendices. These include a full account of the audit reports issued, cancelled and deferred through the year, the QAIP process applied, and new and closed actions within the PSIAS Action Plan, following annual Audit Manager review. The PSIAS Action Plan progress will continue to be monitored and periodically reported to the Audit Committee throughout 2019.

Legal Implications

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

Financial Implications

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

RECOMMENDATIONS

15. That the Committee note and consider the Internal Audit Annual Report, including the:

- opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control
- summary of the work supporting the opinion the statement of the level of conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN), and
- results of the Quality Assurance and Improvement Programme (QAIP) that support the statement.

CHRIS PYKE
AUDIT MANAGER

25 June 2019

The following report is attached:

Appendix A - Internal Audit Annual Report 2018-19