Executive Summary:

To submit for Members’ information and consideration the Internal Audit Service Annual Report for the financial year 2017/18 and the Head of Internal Audit’s Opinion Statement for 2017/18 contained within the report.

Recommendation:

That the summary of Internal Audit work for the financial year 2017/18 be received and noted, and the Head of Internal Audit's Opinion Statement be endorsed.

Report:

1. Introduction

1.1 Internal Audit is a statutory function and it is the responsibility of the Council to ‘maintain an adequate and effective system of internal audit…’

The Audit Service is responsible for:

- Providing assurance to the authority that risk management processes, control systems, accounting records and governance arrangements are in place and operating effectively.
- Providing advice regarding risk, internal control and governance arrangements.
- Assisting management in assessment of risk.
- Undertaking special investigations as necessary.

This report provides the Council with assurance on the adequacy of the Council’s control environment.

1.2 A summary of the work undertaken by the Internal Audit Service during 2017/18 and the Head of Internal Audit's Opinion Statement for the Year Ended 31 March 2018 to support the Annual Governance Statement are detailed below.
Internal Audit Work Summary – 2017/18

1.3 Attended at Appendix A is a summary of Internal Audit reviews undertaken in 2017/18 and details of other work undertaken by the team. Reports were issued to Directors and Heads of Service and included agreed management actions to reduce risk and strengthen internal control. Internal Audit continues to monitor the implementation of these management actions.

1.4 Progress reports were submitted to the Audit and Standards Committee in September 2017 and January 2018.

1.5 Internal Audit continues to have a constructive working relationship with the Council’s appointed external auditor, Grant Thornton, and meet regularly to discuss emerging issues. External audit has referred to the work undertaken by Internal Audit relating to the Council’s control environment.

1.6 The partnership between Elmbridge and Surrey County Council continues to be successful and will remain in place for the 2018/19 audit year. The level of days in the audit plan is 300 and there are no plans currently for a future reduction. The Head of Internal Audit remains satisfied that this provides sufficient coverage to form an opinion on the control environment. This resourcing level is consistent with neighbouring authorities.

1.7 During quarters 2 and 3 Internal Audit were asked to provide support to an ad hoc investigation raised under the confidential reporting policy. No financial irregularity was proven, and Internal Audit made recommendations to improve controls around line management and supervision.

1.8 An External Quality Assessment (EQA) has been arranged as required by the Public Sector Internal Audit Standards (PSIAs) and is being carried out in July 2018/19. This will provide an external assessment of Internal Audit compliance with the PSIAs. The results of the independent assessment will be reported to the Audit and Standards Committee following completion.

1.9 In addition to giving assurance on the adequacy of controls as set out in the reports in Appendix A, the Internal Audit service has added value and assisted the organisation in achieving its objectives through other aspects of its work:

- Participation in several key Council working groups.
- Advice has been requested and provided to services on various risk and control issues including various procurements, contractual and financial matters.
- Co-ordination of counter fraud work including chairing the Counter Fraud Board, monitoring the Fraud Hub and participation in the Surrey Counter Fraud Partnership.
- Annual health check of the Council’s Corporate Governance arrangements.
2.8 In quarter 4 2017/18 a business case was approved by CMB for the two fraud investigators to join Internal Audit as a Counter Fraud Team. The new arrangement has commenced in quarter 1 and this will be developed further during 2018/19.

3. **Head of Internal Audit’s Opinion**

3.1 The Head of Internal Audit’s Opinion Statement provides assurance on the effectiveness of the Council’s systems of internal control.

3.2 **Head of Internal Audit’s Opinion Statement:**

   *The overall opinion is that the Council’s internal control environment is adequate and effective. This is based on the work undertaken by Internal Audit during 2017/18 and summarised in this report.*

   *Agreed management actions arising from Internal Audit work have been reported to senior management and to the Council Management Board and I am satisfied that management has undertaken to address any control weaknesses.*

3.3 The opinion supports the Annual Governance Statement for the year 2017/18 and was included in the Annual Governance Statement approved by the Audit and Standards Committee on 30 May 2018.

3.4 In forming this opinion, the Head of Internal Audit can confirm that Internal Audit activity has been independent of the rest of the organisation and has not been subject to interference in the level or scope of audit work completed.

**Financial Implications:**
None for the purpose of this report.

**Environmental/Sustainability Implications:**
None for the purpose of this report.

**Legal Implications:**
Completion of the work identified in the Internal Audit Plan demonstrates compliance with the Local Government Act 1972 and the Accounts and Audit Regulations.

**Equality Implications:**
None for the purpose of this report.

**Risk Implications:**
Implementation of audit recommendations will reduce risks for the authority. Failure to undertake internal audit work to the required standards would lessen the Council’s assurance that effective control systems are in place and could result in an increase in the Council’s annual external audit fee.

**Community Safety Implications:**
None for the purpose of this report.
**Principal Consultees:**
None for the purpose of this report.

**Background Papers:**
None.

**Enclosures/Appendices:**
Appendix A – Summary of Internal Audit Reviews for the year ended 2017/18.

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