

**Report to:** Governance and Audit Committee

**Date:** 30 July 2018

**Subject:** **Review of Internal Control and Effectiveness of Internal Audit**

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**Director(s):** Angela Taylor, Director, Resources

**Author(s):** Angela Taylor

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## **1. Purpose of this report**

- 1.1 To inform the Committee of the outcome of a review of internal control and the effectiveness of internal audit.

## **2. Information**

- 2.1 There is a requirement under the Accounts and Audit (England) Regulations 2015 that 'The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.....The findings...must be considered....by the members of the body meeting as a whole.' There is a further requirement that 'A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit. The findings of the review...must be considered, as part of the consideration of the system of internal control ... by the committee or body...' As a Combined Authority the appropriate body to consider these reviews is the Governance and Audit Committee.
- 2.2 The elements of the system of internal control are set out in the Corporate Governance Code and Framework, approved by the Combined Authority at its annual meeting in June. The Code was extensively rewritten in 2016 compared to the previous version in response to changes required by the revised CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework 2016' which is applicable for the 2016/17 year end onwards. The redrafted Corporate Governance Code and Framework now uses the seven principles as recommended by the new Framework. The revised principles reflect changes in local authority governance that have arisen since 2007 when the original guidance was issued, including but not restricted to, new roles and responsibilities, the impact of reduced funding and decisions that need to be made as a result, and the potential risks of working in new collaborative ways. The code was further reviewed and updated and approved at the 28 June 2018 meeting of the Combined Authority.

- 2.3 The review of the system of internal control is effectively set out in the Annual Governance Statement (AGS) which is required to be included in the annual accounts. This sets out the governance framework in place during the year and is in accordance with the guidance set out by CIPFA/SOLACE. It is also informed by the work undertaken by internal audit in the year and their overall conclusion in their Internal Audit Annual Report which is:

*From the work undertaken during the financial year 2017/18 and taking into account other sources of assurance, Internal Audit have reached the opinion that, overall, the Combined Authority's framework of control and governance is operating adequately. However, risk management arrangements continued to be under development during 2017/18, therefore only partial assurance can be provided in respect of these matters.*

The full report from the Internal Audit Manager is included under agenda item 9. The AGS for the year to 31 March 2018 is included within the 2017/18 annual accounts which are appended in full to agenda item 11 that seeks the approval of the accounts.

- 2.4 At the time of the review of the risk management arrangements work was underway to update and refresh them. The item later on this agenda brings elements of this work to a conclusion that addresses the recommendations made by internal audit. Taking the body of work as set out in the round the conclusion is that the internal control environment is adequate but with capacity for continuing further improvement.
- 2.5 The Director, Resources has undertaken a review of internal audit, using the Public Sector Internal Audit Standards (PSIAS) checklist and the information in the Internal Audit annual report which sets out the work undertaken in the year. The overall conclusion is that the internal audit function complies with the necessary standards and has worked to an adequate standard during the year. There are a few instances of non-compliance with the PSIAS but these are deemed immaterial (they include for instance the non-involvement of the Chair of the Governance and Audit Committee in staffing appraisals for the Internal Audit Manager).

### **3. Financial Implications**

- 3.1 There are no financial implications directly arising from this report.

### **4. Legal Implications**

- 4.1 There are no legal implications directly arising from this report.

### **5. Staffing Implications**

- 5.1 There are no staffing implications directly arising from this report.

**6. External Consultees**

6.1 No external consultations have been undertaken.

**7. Recommendations**

7.1 That the Committee approve the outcome of the review of internal control and of the effectiveness of internal audit.

**8. Background Documents**

None.

**9. Appendices**

None.