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Friday, 13 July 2018

To: The Members of the **Audit and Standards Committee**
(Councillors: Oliver Lewis (Chairman), Jonathan Lytle (Vice Chairman), Rodney Bates, Edward Hawkins, Paul Ilnicki, Rebecca Jennings-Evans and Bruce Mansell)

In accordance with the Substitute Protocol at Part 4 of the Constitution, Members who are unable to attend this meeting should give their apologies and arrange for one of the appointed substitutes, as listed below, to attend. Members should also inform their group leader of the arrangements made.

Substitutes: Councillors Dan Adams, Ruth Hutchinson, David Lewis and Conrad Sturt

Dear Councillor,

A meeting of the **Audit and Standards Committee** will be held at Council Chamber, Surrey Heath House, Knoll Road, Camberley, GU15 3HD on **Monday, 23 July 2018 at 7.00 pm**. The agenda will be set out as below.

Please note that this meeting will be recorded.

Yours sincerely

Karen Whelan

Chief Executive

AGENDA

		Pages
1	Apologies for Absence	
2	Minutes of the Previous Meeting	3 - 6

To receive the minutes of the meeting of the Audit and Standards Committee held on 23rd April 2018.

3 Declarations of Interest

Members are invited to declare any disclosable pecuniary interests and non pecuniary interests they may have with respect to matters which are to be considered at this meeting. Members who consider they may have an interest are invited to consult the Monitoring Officer or the Democratic Services Manager prior to the meeting.

4 External Audit

To follow

To receive an update from the Council's External Auditors.

5 Internal Audit Annual Report

7 - 16

To consider a report summarising the work of the Council's Internal Audit team for the year 2017-18.

6 Annual Review of the Effectiveness of Internal Audit

17 - 22

To consider a report setting out the findings of the annual review of the effectiveness of the Council's system of internal audit for 2017-18.

Date of Next Meeting

The next scheduled meeting of the Audit and Standards Committee will take place on Monday 26th November 2018 at 7pm.

Minutes of a Meeting of the Audit and Standards Committee held at Council Chamber, Surrey Heath House, Knoll Road, Camberley, GU15 3HD on 23 April 2018

+ Cllr Paul Deach (Chairman)
- Cllr Rebecca Jennings-Evans (Vice Chairman)

- | | |
|-----------------------------------|----------------------|
| - Cllr Rodney Bates | + Cllr Paul Ilnicki |
| - Cllr Edward Hawkins | + Cllr Bruce Mansell |
| | Cllr Conrad Sturt |
| + Present | |
| - Apologies for absence presented | |

Officers Present: Karen Limmer, Head of Legal Services
Sutinder Jas, KPMG
Kelvin Manon, Executive Head: Finance

12AS Minutes of the Previous Meeting

The minutes of the meeting held on 8 November 2017 were confirmed and signed by the chairman.

13AS Financial Statements Audit Plan 2017/18

The Committee received a report setting out KPMG's, the Council's external auditor, plans for its audit of the Council's 2017/2018 financial records.

In setting out its approach to the audit of the accounts, KPMG had identified the following areas that would be subject to specific scrutiny:

- Valuation of land and buildings
- Pension liabilities
- Value of investment properties
- Financial resilience given the financial pressures the Council is currently facing.

Members queried whether a potential drop in land value in relation to Council owned property in Camberley Town Centre constituted an area of risk for the auditor. Members were advised that the auditors were concerned as to the risk of the value of the Town Centre being misstated in the accounts rather than a potential fall in value.

14AS Certification of Claims and Returns

The Committee received a report setting out the findings of an audit of the Council's Housing Benefits Claims and Returns for 2016/17 completed by KPMG in November 2017.

In 2016/17, the Council had claimed a total of £16,138,542 in respect of Housing Benefits from the Government. The audit, which had been conducted in accordance with the requirements set out by the Government, had concluded that the claim and returns were fairly stated and in accordance with the relevant terms and conditions.

The Committee noted the report.

15AS Internal Audit Annual Report 2018/19

The Committee received a report setting out the proposed work plan for the Council's Internal Audit Function for 2018/19.

The work plan had been based on the Internal Audit Three Year Strategic Plan and consisted of a combination of audit activities that were carried out on an annual basis, activities that were conducted on a triannual basis and one off audit projects.

It was expected that the activities proposed in the Annual Plan would require 430 working days to be delivered by the Council's two internal auditors. Additional resources would be brought in to supplement the internal Audit Team when required.

The Committee stated it would like to have details on the Council's actual performance against the plan. As a result it was agreed that as part of the Internal Audit year-end report for the committee the Senior Auditor would be requested to provide a summary showing the actual days spent on each audit against the plan and reasons for significant variances.

The Committee noted the proposed audit areas for 2018/19.

RESOLVED that the Annual Audit Plan for 2018/19, as set out in Annex A of the report, be approved

16AS Annual Corporate Governance Statement

The Committee considered a report setting out the draft Annual Corporate Governance Statement 2017/18.

There was a statutory requirement for the Council to produce an Annual Corporate Governance statement which reviewed the effectiveness of the Council's control systems and formed part of the final accounts for each financial year. The statement set out the governance arrangements in place at the Council, highlighted any key issues identified during the year and summarised progress made towards addressing any previously identified issues.

It was reported that the Council's Monitoring Officer and Section 151 Officer considered the Council's governance arrangements to be adequate and effective. Whilst no significant governance issues had been identified in 2017/18 a number

of minor issues that might impact on the Council's ability to operate effectively had been identified, including the implementation of the General Data Protection Regulation, the advancement of the London Road Block Development Project, the introduction of the new IAS 9 accounting standard and the establishment of a new contract for the Arena Leisure Centre. It was also noted that Council would be working with its new auditor, BDO, in the upcoming year.

Members requested clarification on a number of the agreed actions on the essential issues raised by the latest Internal Audit report. It was advised communication had started to ensure staff raised purchase orders on the Council's finance system prior to placing orders. In addition it was noted that the Council would be working with the leisure contractor to monitor income reporting from the golfing facilities at Frimley Lodge Park via regular meetings and a number of spot checks.

17AS Accounting Treatment of Town Centre Properties

The committee received a report informing members of the change in accounting treatment of the Council owned Town Centre properties. The report outlined that Council owned Camberley town centre properties would be now classified as "Other Land and Buildings" as per the 2017/18 financial statements. The properties were previously classified in previous annual statements as "Investments and Investment Properties". This reflected the change in direct purpose of the properties from being held only for income and capital appreciation to being held to support the regeneration of Camberley Town Centre.

The Committee noted the report.

Chairman

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Internal Audit Annual Report

Portfolio	Non-executive function
Ward(s) Affected:	n/a

Purpose

To summarise the work of the Council's Internal Audit team for the year 2017-18 and to provide an opinion from the Section 151 Officer on the adequacy of the Council's systems of internal control.

1 Background

- 1.1 The Public Sector Internal Audit Standards require public bodies including local authorities to report on the work of internal audit. Section 151 officers should also provide a written report to those charged with governance. The report for Surrey Heath aims to:
- provide an opinion on the overall adequacy and effectiveness of the Council's control environment and risk landscape;
 - disclose any qualifications to that opinion, with reasons; and
 - present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies; and
 - highlight any significant matters for reporting.
- 1.2 This audit report compliments some of the findings reported in the Annual Governance Statement for 2017-18.

2. Summary of Internal Audit Work for 2017-18

- 2.1 The Internal Audit work programme is led by the Council's Audit Strategy as well as the Annual Audit Plan. The Audit Plan is the programme of audit work scheduled for the year which is agreed by the Audit and Standards Committee each March. A summary of performance against the plan is given in annexe B.
- 2.2 In 2017-18 a total of 21 planned audits were completed from the audit plan. An additional number of unscheduled reviews were also undertaken which were not included in the plan at the start of the year, details are located at Annexe B. The majority of the planned audits resulted in the issue of audit reports to management, highlighting the main findings. Where audit reports were not issued, audit findings were fed back through risk assessments or face to face meetings. Details of these are included in Annex B.
- 2.3 Each internal audit is provided with one of four levels of assurance namely:

Level of assurance	Definition
FULL(green)	Controls are strong and being fully complied with, service is continually developing and offering added value, business objectives are being met and exceeded
SUBSTANTIAL(green)	There is basically a sound system of control, but some minor areas of weakness have been identified, which may put some of the systems objectives at risk
LIMITED (amber)	The weaknesses in the system of control are such as to put some of the system objectives at risk, and may affect council income or expenditure
NIL (red)	There are limited or no controls in place. The service poses a significant risk to the Council and there is a risk that business objectives are not met

2.4 A breakdown of the number of internal audit reports issued in 2017-18 and the assurance level provided for each is shown below. It should be noted that internal audit tends not to issue full assurance reports as only a sample of transactions are reviewed not the entire population.

- 0 - Full assurance
- 21 - Substantial assurance
- 0 - Limited assurance
- 0 - Nil assurance

2.5 Each recommendation is classified into 3 categories: essential, desirable, or best practice.

Essential (or high) – normally require immediate attention to address substantial weaknesses and ensure council business objectives are met; could result in financial loss; non-compliance with statutory guidance/legislation.

Desirable (or medium) - contribute to maintaining an effective control environment and ensure policies and procedures are met; help to ensure council priorities and milestones are met; short term implementation.

Best Practice (or low) – industry best practice suggestions; help to improve overall control and efficiency; assist management deliver services; medium to long term implementation.

2.6 In total there were 93 recommendations raised in 2017-18:

- 8 essential
- 70 desirable
- 15 best practice

3. Overdue Audit Recommendations

- 3.1 Internal Audit carries out an exercise to determine the status of overdue audit recommendations every 6 months. This exercise follows up on all audit recommendations including essential, desirable, and best practice, but only overdue essential recommendations are reported to committee.
- 3.2 The status of audit recommendations was last reported to committee back in March 2018. The report stated that there were no essential overdue recommendations outstanding.

4. Overall Opinion of the Section 151 Officer

- 4.1 The overall opinion of the Section 151 Officer is that the Council's internal control framework is adequate and effective and is being managed with due care and attention. This is based on the work undertaken by Internal Audit during the course of the previous year.
- 4.2 A summary of the work undertaken in 2017-18 can be found attached as Annex A.

5. Compliance with the Public Sector Internal Audit Standards

- 5.1 CIPFA's Code of Practice has been replaced by the Public Sector Internal Audit Standards and these Standards should be adopted by all local authorities. The work of the Council's internal audit team continues to demonstrate compliance with these Standards.

6. Resource implications

- 6.1 There are no resource implications arising from this report

7. Recommendations

- 7.1 The Audit and Standards Committee is asked to note and comment on the 2017-18 Annual Audit Report.

Annexes

Annex A - Internal Audit Work for 2017/18
Annex B – Unscheduled Audit Work

Background Papers:

None

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Head of Service:

Louise Livingston - Executive Head of Transformation

INTERNAL AUDIT WORK FOR 2017/18

Detail of the work programme completed by Internal Audit is set out below:

- Key finance systems
- Scheduled audits from the Plan
- Unscheduled audit activity
- Staffing and resources

KEY FINANCE SYSTEMS

A number of key audits are carried out annually on behalf of the Council's external auditors. In completing the work program for the year both KPMG and Internal Audit will have regard to both the adequacy of the Council's financial systems and the adequacy of the arrangements for preventing and detecting fraud and corruption.

The audit team continues to support the finance team by providing advice on such issues as budget monitoring, accruals, opening balances and bank reconciliations.

The following table summarises the key financial audits that were performed in 2017-18:

Table 1: Key Finance systems work - 8 audits

Audit	Summary of areas covered
Treasury Management – substantial assurance	The audit reviewed short and long-term investments, access and use of bank line, treasury strategy as well as short and long term borrowing in order to help purchase new properties.
Capital – substantial assurance	The annual audit covered asset valuations, the impairment review, capital budget monitoring, and verifying council assets and utilising inventory checks.
Debtors and Income – substantial assurance	The audit checked that debts have been raised accurately and on time, the efficiency of the debt recovery process, an examination of a sample of debts written off, whether debts are cancelled correctly through using credit notes, and monthly reconciliations
Creditors and Expenditure- substantial assurance	The creditors audit looked at access to the finance system, making changes to supplier bank accounts, sample testing of creditor invoices paid through the civica system, a review of creditor exception reports e.g. Payments over £20k, and a review of the payment run process

Main Accounting-substantial assurance	The audit reviewed the council's corporate budget monitoring process, a check of the trial balance to the opening balances, sample checking year end arrangements for dealing with accruals and prep payments, and testing of journals posted to the ledger.
Revenues – substantial assurance	Business rates and council tax refunds were examined as part of the audit, in conjunction with the reconciliation process performed between the revenues system and the Valuation office records, and cash receipting. The audit also looked at accounts with discounts, exemptions and disregards.
Housing Benefits-substantial assurance	The following areas were covered as part of the audit: monthly reconciliations, running and utilising system except reports such as duplicate payments, payments over a given value, re performing a sample of new claims and change in circumstances assessments, examining arrangements made to undertake assessment accuracy, and reviewing checks carried out by benefits staff to check for id and income and capital assessments.
Cash & Bank – substantial assurance	Bank reconciliations, bank mandates, the cash collection process, testing a sample of cash transactions and records through Adelante, Kiosk, the web, ATP and other council systems.

OTHER SCHEDULED AUDITS FROM THE 2017-18 PLAN

ICT audit – substantial assurance

Box which is a cloud based document storage system has recently been introduced to the Council and is set to transform the way in which the Council manages its records and documents. The ICT audit for 17/18 consequently examined the introduction and roll out of the box platform to SHBC users. The audit centred on the production of a risk assessment and a set of recommendations identified from the risk document. Consideration was given to controls in place within box to ensure SHBC data is secure, new policies and procedures in relation to the use of box, training and culture, data security risks arising from box access and file transfers and file storage, and controls over box user accounts.

An action plan has been agreed with Transformation to tackle the issues raised in the audit.

Human Resources – Substantial Assurance

A number of activities are selected each year for review for the human resources audit, and this year those areas selected were: staff mileage claims and payments, section 11 safeguarding action plan, the Council job evaluation process and associated procedures, post entry training, and training courses and the selection process for choosing training providers.

A number of recommendations have been made these are being addressed with a management action plan.

Housing– Substantial Assurance

The internal audit focused on the work carried out by the housing team to prevent homelessness. The audit work specifically concentrated on the following risk areas: the housing register and supporting records and the points allocations; social housing stock allocation ensuring housing is awarded in line with the Joint Housing Allocations Policy and the appropriate awarding of points based on set criteria; bed and breakfast payments and bed and breakfast supplier provision; the Council rent choice scheme ensuring controls are in place to safeguard deposits paid; managing housing debts; revenue outturn reporting; and the provisions within the new Homelessness Act- audit facilitated a risk assessment with housing to assist in preparation for the implementation of the Homelessness Reduction Act 2017.

Internal audit agreed a risk assessment with the team to develop the new homelessness act provisions as well as agreeing a number of recommendations to improve procedures and processes.

Parking – substantial assurance

The parking review for 17/18 focused on income records, including a review of the new Glide payment app and ticket less parking, as well as income reconciliation and banking. The audit also covered management of Penalty Charge Notices (PCNs) and how PCNs were being chased/ progressed until payment is made, or referred to TEC (traffic enforcement agency) or cancelled. The new on line season ticket arrangements were also examined.

A number of recommendations were raised with management and an action plan has been put in place to address these.

Frimley Lodge Golf Review – substantial assurance

The objectives of this review were to provide an independent review of the golf facility located at Frimley Lodge Park, Camberly; to carry out mystery test purchasing at the golf facility; to provide feedback to the Business service and recommend areas for improvement.

Several audit recommendations have been agreed with the Business team to improve processes at the golf facility and most of these have since been implemented to date.

Payroll – Substantial Assurance

The 2017 payroll audit which is an annual review looked at how the Council manages and processes starters, leavers, and amendment to staff such as change in job role, or a change in hours. Overtime claims and staff paid hourly by submitting timesheets were also examined. Establishment lists which are used to verify the integrity of the payroll and HR data such as job grade, number of staff by service etc. were also examined.

The audit resulted in a small number of recommendations being raised to address weaknesses and these have since been addressed.

Corporate Health & Safety – Substantial Assurance

An audit of the corporate health & safety system was started in 16/17 but due to staff sickness was carried over to 17/18. A health & safety audit was carried out to provide assurance to management and to Members that Council staff and contractors are complying with health & safety policies and current legislation to ensure that personnel are protected from injury or harm in the workplace.

A number of issues were identified during the audit which are being addressed through an action plan. These include adoption of a staff road safety and driving improvement measures such as MIDAS training, reviewing and updating service risk assessments to reflect current hazards and risks, risk assessments for public events and for Council tenants, reviewing the H&S committee terms of reference, lone working policy and provision of more lone working devices.

Building Control – substantial assurance

The audit reviewed the mechanisms for monitoring income, the processes for reconciling income reported in the ledger to records held with the service, income is correctly recorded and accounted for, raising Completion Certificates following the payment of invoices, as well as reviewing arrangements in place for dealing with dangerous structures and responding to incidents out of hours. Test findings and resultant recommendations have since been actioned.

Fraud - Substantial Assurance

An audit of the Council's fraud prevention and detection processes was carried out in 17/18. The audit considered the following areas: a review of the anti-fraud and whistleblowing policies, anti-bribery gifts and hospitality policies and registers, ensuring staff are aware of the relevant counter fraud policies and processes and associated training initiatives. The audit resulted in a small number of recommendations which have been agreed and the Council is on schedule to implement the action points raised.

Development Control – substantial assurance

The main processes for dealing with planning applications were reviewed as part of the development control audit. The scope of the audit included procedures for processing planning applications, receipts and recording of planning applications, how planning fees are collected and accounted for, application deadlines and timeframes, performance measures, and making arrangements for the Community Infrastructure Levy.

There were no material weaknesses found in the audit and no recommendations were raised.

Environmental Health – substantial assurance

The environmental health audit focused on food safety and pest control processes for 2017/18. The audit examined the contract for the provision of pest control services, payments to contractors and suppliers, the registration of food businesses, the inspection of food businesses, and the food complaints process. The audit resulted in a number of action points which have been implemented or are on track to be actioned.

Event management – action plans issued in place of a formal report

The Council has organised a number of borough wide events in 2017/18 some of which were reviewed by the internal audit team. The events that were reviewed in 17/18 included the winter festival, Frimley Lodge Live and the Surrey Heath show. Internal audit did not issue any formal reports as it was agreed that our findings would be disseminated through management meetings and email. An events audit is scheduled for the 2018/19 year where we will be following our findings from last year's events.

Drainage – substantial assurance

The drainage audit looked at the grant application process for applying for more funding, Council spend on drainage and flooding works to contractors and suppliers, grant expenditure in year, fee income, the mechanism for short listing and selecting contractors for drainage works, and how various projects are being managed and progressed by the Council drainage officer. The agreed action plan has since been implemented.

UNSCHEDULED AUDIT WORK

Several additional pieces of work were undertaken that were not included in the original plan, the details of which are below:

Disabled Facilities Grants – advice and assistance has been given to the Housing Manager in delivering grant funding following the service re structure.

Intermediaries Legislation (IR35) – internal audit has continued to partner HR in managing IR35 legislation on behalf of the authority. This has included making assessments on a number of contractors or third party workers, engaging with these people and making decisions about their employment status.

Equality Impact Assessments – internal audit continues to engage and contribute to this group and has chaired at least one meeting of the equalities [officer working group]. The senior auditor is the equalities rep for the service.

In addition to the above pieces of work, Internal Audit has also supported the Elections Team plan and deliver 2 separate national elections in the 2017/18 year. Audit has participated in the risk management meetings and project group in helping to deliver these 2 elections.

PERFORMANCE AGAINST THE PLAN

There were a total of 430 working days available to deliver the audit plan. The plan consisted of 28 scheduled audits, 21 of these were completed and reports issued. Another 2 audits were in progress at the time of drafting this report.

In total 5 audits have been deferred to 2018/19 - waste, estates and regeneration, enforcement and media and marketing. All of these audits have been carried over to the plan for 2018/19. This was partly at the request of management and due to the planned work being replaced by several unscheduled audit reviews, such as DFGs and IR35 legislation. There has also been an element of staff absence due to staff sickness and training.

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Annual Review of the Effectiveness of the System of Internal Audit

Portfolio	Non-executive function
Ward(s) Affected:	n/a

Purpose

To provide an annual review of the effectiveness of the system of internal audit for 2017-18 as required by the Accounts and Audit Regulations 2006, amended 2011.

1 Background

- 1.1 The Accounts and Audit Regulations require the Council annually to conduct a review of the effectiveness of its system of internal control.

2 Resource Implications

- 2.2 There are no resource implications arising from this report.

3 Risk Assessment

- 3.3 Failure to operate an effective internal audit service could reduce the level of assurance provided to senior management and Members regarding risk management processes, control systems, accounting records and governance arrangements.

4. Recommendations

- 4.1 The Audit and Standards Committee is asked to note and approve the report on the Review of the Effectiveness of Internal Audit attached as Annex A to this report.

Background Papers: None

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Head of Service: Louise Livingston – Executive Head of Transformation

Annual Review of the Effectiveness of the System of Internal Audit

1. Introduction

- 1.1 Internal Audit should be managed appropriately to enable public bodies such as local councils to fulfil their duty to be accountable and transparent to the public, while achieving their objectives effectively, efficiently, economically and ethically.
- 1.2 The governing body for Internal Audit within the UK, the Chartered Institute of Internal Auditors (CIIA), has identified nine key elements to establish an effective public sector audit function namely: organisational independence, a formal mandate, unrestricted access, sufficient funding, competent leadership, objective staff, competent staff, stakeholder support, professional audit standards.
- 1.3 This report examines the extent to which these nine elements are met by the internal audit service at Surrey Heath Borough Council.

2. Organisational Independence

- 2.1 *Internal Audit should have sufficient independence from those it is required to audit so that it can both conduct and be perceived to conduct its work without interference. Being independent contributes to the accuracy of audit work and the ability to rely on reports results.*
- 2.2 Internal Audit operates with independence from management. An Audit Committee is in place which sits 3 or 4 times a year and Internal Audit reports to this committee on a regular basis. In addition, Internal Audit reports to the Section 151 Officer by exception and also a direct reporting line to the Chief Executive has been established. The Senior Auditor has direct access to discuss matters arising with the external auditors as and when necessary. Certain audit reports are presented to CMT for discussion/agreement.

3. Adoption of a Formal Mandate

- 3.1 *Internal Audit's powers and duties should be established by a formal mandate or other legal document.*
- 3.2 Internal auditing is required by regulation as it is set down in the Local Government Act. The Council has also established and adopted an internal audit charter. This is available to all staff and Members and is published on the Council's internal website. The Audit Charter covers aspects such as scope of the audit function, rights of access, reporting arrangements, and work prioritisation. The Internal Audit team is also involved in the formal reporting of audit results to senior management by way of formal audit reports.

4. Unrestricted Access

- 4.1 *Audits should be conducted with complete and unrestricted access to staff, property, and records as appropriate for the performance of the audit activities.*

- 4.2 At Surrey Heath rights of access are included within the Audit Charter. In addition rights of access are provided for within contracts with external service providers where Internal Audit is also required from time to time to audit other service provider's activities. Examples include the Arena contract and the waste collection contract.

5. Sufficient Funding

- 5.1 *Internal Audit should have sufficient funding relative to the size of its audit responsibilities.*
- 5.2 The budget for the Council's Internal Audit service is agreed each year by negotiation at CMT level. Internal audit is part of the Transformation service and is allocated funding proportionately. Funding is considered sufficient to deliver the Annual Plan agreed by Members each year but does not allow for much resilience.

6. Competent Leadership

- 6.1 *Internal Audit management should be able to effectively demonstrate a good working knowledge of audit standards, be professionally qualified, and be competent to oversee and manage an audit activity.*
- 6.2 The current audit team has many years local authority experience. The Senior Auditor is a Chartered member of the governing body for audit, the Institute of Internal Audit and the internal audit team is held in high regard across the Council and at CMT/Member level.
- 6.3 Audit performance is also measured against compliance with the Public Sector Internal Audit Standards. The Senior Auditor is also the spokesperson for the audit activity, and is responsible for promoting the value of the internal audit activity with the Council, as well as keeping up to date with industry and regulatory changes and professional standards through training and access the audit websites.

7. Objective Staff

- 7.1 *Audit staff must have impartial attitudes and avoid any conflict of interest. Such a conflict can create an appearance of impropriety that can undermine confidence in the internal auditor, the audit activity, and the profession.*
- 7.2 The objectivity of Internal Audit's officers is an integral element of delivering an effective audit service on behalf of the Council. Internal Audit works towards meeting the IIA's Code of Ethics at all times. Internal Audit is viewed as being free of any conflicts of interest within the Council, and has signed up to the declaration of interests.

8. Competent Staff

- 8.1 *Internal Audit needs professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. Auditors should comply with minimum continuing educational requirements established by the IIA/CIPFA and standards.*
- 8.2 The Internal Audit team can demonstrate that it meets the 3 most important characteristics when assessing the competence level within the team. The Senior Auditor holds an audit professional certification, being a Certified Internal Auditor. In

terms of IIA membership, all auditors at the Council are members of the IIA, and the audit team need to demonstrate it continues to meet CPD requirements of the institute.

- 8.3 The Internal Audit team can also demonstrate holding the top 5 behavioural skills as identified by the IIA, namely confidentiality, objectivity, communication skills, judgement, and working independently.

9. Stakeholder Support

- 9.1 *The work of Internal Audit should be endorsed and supported fully by senior officers and Members within the Council. Internal Audit should also be supported by external contractors whom deliver services on behalf of the Council.*
- 9.2 The work of audit is supported by the Chief Executive, the Section 151 Officer, members of CMT as well as the Audit Committee. The Council is fully committed to promoting the work of its Internal Audit team and the added value that it can provide. External audit also review the work of Internal Audit and the reports the team produces as part of their end of year accounts process.

10. Professional Audit Standards

- 10.1 The Internal Audit team works towards the internationally set of Standards known as the Public Sector Internal Audit Standards. Internal Audit also delivers its audits in accordance with the International Professional Practices Framework (IPPF). The Standards provide a framework to promote quality audit work that is systematic, objective and based on evidence. The Public Sector Standards include elements such as objectivity, independence, reporting, and quality assurance. The work of Internal Audit can be measured against these Standards and which are reported to Members on a periodic basis.
- 10.2 The audit team is also currently going through a peer review exercise with 2 other neighbouring authorities. Results from the peer review will be disseminated in due course.

11. IMPROVEMENTS TO THE SYSTEM OF INTERNAL AUDIT 2017/18

- 11.1 The 2016-17 effectiveness report set out recommendations that required addressing in the year.
- 11.2 Table 1 below sets out how these recommendations have been addressed:

Table 1*Improvements to system of internal audit implemented in 2017/18*

Area for Improvement as identified in the 2016/17 review	Improvements implemented in 2017/18
<p>1/ Changing skillsets and competencies</p> <p>The traditional role and associated skills of a public sector auditor is changing. An increasing number of Council services are being delivered electronically, relying more on virtual and cloud based technologies. The Council is moving at a quick pace with its digitalisation agenda.</p>	<p>Internal audit carried out an ICT audit in 17/18 that focused on the roll out and implementation of box. The audit looked at the box security, access control, as well as training and policies and processes.</p> <p>Audit electronic files and folders have recently been migrated across box, and the audit team is using box daily to manage its workload and file storage. With box audit can work remotely and help support the agile agenda.</p>
<p>2/ Property and prudential borrowing</p> <p>The Council is investing more heavily in property to help increase income from rents. Inevitably this relies on increased borrowing and rents.</p>	<p>Internal audit has carried out an audit of treasury, including testing of the Council's short and long term prudential borrowing from the PWLB and other local authorities. The audit team deferred its review of investment portfolio and the town centre regeneration until 2018-19, due to vacancies in the property team.</p>

12. CHALLENGES FOR 2018-19

- 12.1 The following challenges for Internal Audit have been identified for the forthcoming financial year:

GDPR and the Data Protection Challenge

- 12.2 Unlimited fines, prison sentences, and an increasing number of FOI requests mean that ensuring the Council is fully GDPR compliant is becoming hugely important. Legal and IT teams are already addressing GDPR compliance and internal audit is well placed to provide assurance by conducting a top-down risk assessment of how likely the Council is to comply, by using gap analysis techniques to review existing controls and identify key areas that require improvement, and by consulting on the practical implementation of new controls and processes.

Workforces: Planning for the Future

- 12.3 The Council like other sectors is having to think more strategically about their workforce planning than ever before for a number of reasons. There's an expectation that we do more with less, and that's not just money but also people. The inability to hire and retain the right talent is a significant operational risk and internal audit will

need to work with HR to ensure that the Council assesses its current and future skills gap.

Vendor Risk and Third Party Assurance

- 12.4 Gaining assurance over third party environments is becoming more pertinent for the Council. Were outsourcing more and more of our activities, eg. JPUT, Arena, Joint Waste solutions, pest control, out of hours working, and Cloud computing. The Council needs to get much better at understanding these risks and the assurance coverage. Internal audit has a crucial role to play in providing assurance around supply chain risk. Internal audit can add value by reviewing the governance around procurement and contract management and checking that audit rights are written into supplier contracts.

13. CONCLUSION

- 13.1 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2017-18, with an internal audit function that is compliant with the requirements of the Public Sector Internal Audit Standards.
- 13.2 The audit team has continued to broaden its remit across the authority to ensure that it plays a wider role working with business units to help them deliver their services more economically, achieve better results and reduce risk.