

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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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.