

**ANNUAL REVIEW OF THE EFFECTIVENESS OF  
THE SYSTEM OF INTERNAL AUDIT**

Portfolio	Finance
Ward(s) Affected:	n/a

**Purpose**

**To provide an annual review of the effectiveness of the system of internal audit for 2018-19 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. The outcomes of this review are attached to this report as Annex A.

**2. Resource Implications**

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

**3. Risk Assessment**

- 3.1 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.

Background Papers: None

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## 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.

### 2.1 Organisational Independence

*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.*

The Internal Audit service at Surrey Heath operates with independence from management as far as possible. An audit committee (Audit & Standards committee) is long established which sits 3 or 4 times a year and Internal Audit reports to this committee. 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. On occasions audit matters are discussed at CMT and CMT members are consulted upon on key issues.

### 2.2 Adoption of a Formal Mandate

*Internal Audit's powers and duties should be established by a formal mandate or other legal document.*

Internal auditing is required by regulation as it is set down in the Local Government Act. Audit has adopted an Audit Charter, which is available to staff 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 Audit Charter will be reviewed and refreshed in 2019.

### 2.3 Unrestricted Access

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

At Surrey Heath rights of access are included within the Audit Charter. In addition rights of access are provided for within larger contracts with external

service providers. A good example is the current joint waste collection contract with the service provider Amey.

#### **2.4 Sufficient Funding**

*Internal Audit should have sufficient funding relative to the size of its audit responsibilities.*

The budget for Surrey Heath's Internal Audit is agreed each year by negotiation at CMT. Internal audit is part of the Transformation service and is allocated funding proportionately. Current funding is proportionate to the level of the activity and the size of the organisation. However due to the size of the function there is very little spare capacity or resilience

#### **2.5 Competent Leadership**

*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.*

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.

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.

#### **2.6 Objective Staff**

*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.*

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. Audit staff has also signed a confidentiality agreement with HR to ensure staff records accessed are held secure.

#### **2.7 Competent Staff**

*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.*

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. All auditors have worked in the public sector for many years. 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.

## **2.8 Stakeholder Support**

*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.*

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 committed to promoting the work that Internal Audit helps to deliver. External audit have also placed reliance on the work of Surrey Heath's internal audit in previous years as part of their annual audit of the Council's financial statements.

## **2.9 Professional Audit Standards**

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.

## **3. Peer Review**

In 2018 Surrey Heath's Internal Audit function underwent an External Quality Assessment (peer review). The purpose of the EQA was to provide an independent assessment of the extent to which Internal Audit complies with the Standards set by the public sector internal auditing standards board.

Surrey Heath's internal audit joined 2 neighbouring authorities, Elmbridge BC and Spelthorne BC to carry out a 3-way assessment. It was agreed that Spelthorne BC would provide this assessment for Surrey Heath, and we have recently received a report from Spelthorne of their main findings.

Their overall conclusion is that Internal Audit for Surrey Heath generally conforms to the PSIAS requirements. Their assessment reported that Internal Audit at Surrey Heath fully conformed in the following areas: nature of work, engagement planning, performing the engagement, monitoring progress, and communicating risk. The review highlighted some areas where improvements can be made. The main findings will be presented to a future audit committee.

#### 4. IMPROVEMENTS TO THE SYSTEM OF INTERNAL AUDIT 2018/19

4.1 The 2017/18 effectiveness report set out a number of recommendations that required addressing in year. The table below sets out how these recommendations have been addressed:

**Table 1**

*Improvements to system of internal audit implemented in 2018/19*

Area for Improvement as identified in the 2017/18 review	Improvements implemented in 2018/19
<p><u>GDPR and the Data Protection Challenge</u> Ensuring the Council is fully GDPR compliant has increased in importance. 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 complying.</p>	<p>An audit of information governance was carried out in 2018. A number of recommendations were agreed with management to address risks and to improve the service. The audit focused on staff access to computer systems and the network, processing starters and leavers, how confidential waste is being managed and disposed of, and managing a clear desk policy. The audit also reviewed disposal of obsolete Council electronic assets and equipment, and examined policies put in place to address data subjects and access rights.</p>
<p><u>Workforces: Planning for the Future</u> The Council needs to think more strategically about its workforce planning. There's an expectation that more is done with less, whether that's money or people. The inability to hire and retain the right talent is a significant risk.</p>	<p>Audit has considered staffing levels and skills and competencies when carrying out internal audits. For example there has been a restructure to the Joint Waste Solutions team which has resulted in a lot of new officers being recruited to new posts.</p>
<p><u>Vendor Risk and Third Party Assurance</u> Gaining assurance over third party environments is becoming more relevant. We're outsourcing more activities, and the Council is more reliant on remote storage using cloud based technologies. The Council needs to get much better at understanding these risks and the assurance coverage.</p>	<p>A number of audits have been carried out with third party service providers in 2018/19, including joint waste, insurance, leisure services, and information governance. We have reviewed the contracts with these providers to ensure that risks are being managed. Audit has also been involved with the Council's business continuity partner Applied Resilience to ensure that business risks have been mapped out, prioritised and action plans put in place to deal with any event or disaster.</p>

## **5 CHALLENGES FOR 2019-2020**

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

### Continuing to meet the needs of a changing Council landscape

- 5.2 With an ever changing environment where Council priorities are shifting away from traditional activities to newer technologies and focus on new investment and property, internal audit needs to adapt to these changes. This can be achieved by audit maintaining an adequate level of technical knowledge to audit these new areas, as well as adopting a more flexible approach to audit.

### Meeting the Internal Audit Annual Plan

- 5.3 The annual plan is agreed at committee each March. It included a large number of audits to be delivered in year. The audit plan can be flexed, should the need arise, to address a new or emerging risk which has not been identified on the original plan.

### Actioning the Peer Review

- 5.4 A number of recommendations were made in respect of the peer review exercise conducted in 2018, and an action plan has provisionally been agreed. These include reviewing and refreshing the Audit Charter and the Audit Manual, adopting a more strategic high level Audit Strategy, development a formal Quality Assurance Improvement programme and consideration of adopting a Code of Ethics for audit.

## **6 CONCLUSION**

- 6.1 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2018/19, with an internal audit function that is compliant with the requirements of the Public Sector Internal Audit Standards.
- 6.2 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.