

**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 2019-20 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

- 2.1 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. NINE ELEMENTS

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 occasion audit matters are discussed at CMT level.

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.

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. Examples include the current joint waste collection contract and the grounds maintenance contract.

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 with 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. The budget however is at capacity and does not allow for much resilience and there is little contingency.

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, whilst these have changed, 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 international 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.

3. PEER REVIEW

The Internal Audit function has undergone an External Quality Assessment or peer review within the last 5 years as required by the Standards.

4. IMPROVEMENTS TO THE SYSTEM OF INTERNAL AUDIT 2019/20

- 4.1 The 2018/19 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 2019/20

Area for Improvement as identified in the 2018/19 review	Improvements implemented in financial year 19/20
<u>Continuing to meet the needs of a changing Council landscape</u>	The authority has been subject to a number of new initiatives and challenges, and internal audit has needed to keep up to pace to meet these on going challenges. Examples include reviewing changes to working patterns with agile working and working from home and the risks that this brings, reviews of unauthorised encampments and traveller community, and the changing work patterns and the risks the authority faces addressing all the demands of covid 19 and the welfare work. Internal audit continues to contribute to the corporate risk management group, the

<p><u>Meeting the Annual Plan</u></p>	<p>business continuity group and the work of the equalities and diversity officer group.</p> <p>The work at the end of the year was interrupted by staff shortages as well as staff re deployment to help with the welfare work and covid 19, as directed by the Government. That being said, 21 audits were successfully completed from the Annual Plan. 2 additional audits were carried out at the request of management. A number of audits also commenced by the end of the year and are due to be finished in 20/21, mainly due to covid 19.</p>
<p><u>Actioning the Peer Review</u></p>	<p>A number of improvements have begun to be implemented into the internal audit function as a result of the peer review findings, including a review of the Audit Charter and Audit Manual, consideration of audit's reporting line, audit resourcing and the budget necessary to deliver an effective service. More work will continue to be undertaken in 2020/21.</p>

5 CHALLENGES FOR 2020-21

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

Joint Waste

- 5.2 The Council needs to continue to work with the service provider to deliver the joint waste service in line with the contract. The Council has made arrangements to go through arbitration negotiations, and covenants/contingencies have been put in place. The role of internal audit will be to ensure that a comprehensive audit review of the main processes of Joint Waste Solutions and the waste contract is successfully undertaken and any improvements agreed with management.

Organisational Re structure

- 5.3 A senior management restructure is planned for 2020, and the appointment of services. This includes the appointment of a new Chief Executive. Internal audit will need to ensure that the results and fall out of the re structure are incorporated into audit reviews where necessary.

Investment & Development

- 5.4 The Council needs to continue to manage its property portfolio and new acquisitions to ensure income is maximised and new income streams are identified and generated. The Council needs to work with Wilkes, Head and Eve to ensure required assets are correctly valued with external audit. The Council should continue to work with its professional advisors eg. planners and architects to develop the LRB. The role of internal audit will be to review the main processes and checks in place when these projects are undertaken, and to ensure that effective due diligence takes place for all

new acquisitions. Actions arising out of the 2020 corporate property audit will also be assessed.

6 CONCLUSION

- 6.1 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2019/20, 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.