

## Annual Review of the Effectiveness of the System of Internal Audit

### Summary

To provide an annual review of the effectiveness of the system of internal audit for 2020-21 as required by the Accounts and Audit Regulations 2006, amended 2011.

**Portfolio:** Finance

**Wards Affected:** N/A

### Recommendation

The Audit and Standards Committee is asked to note and approve the report on the Review of the Effectiveness of Internal Audit.

#### 1. Key Issues

- 1.1 The Accounts and Audit Regulations requires local authorities to conduct an annual review of the effectiveness of the internal audit function.

#### 2. Resource Implications

- 2.1 There are no resource implications arising from this report

#### 3. Options

- 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 as well as governance arrangements.

#### 4. Supporting Information

##### Introduction

- 4.1 An effective and productive Internal Audit function enables public bodies including local authorities to fulfil their duty to be accountable and transparent to the public, while achieving their objectives effectively, efficiently, economically, ethically as well as environmentally.
- 4.2 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. These standards have not changed since the last report and remain in place.
- 4.3 This report examines the extent to which these nine elements have been met by Internal Audit at Surrey Heath Borough Council for the period April 2020 to March 2021.

### 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.*

- 4.4 For the last financial year Internal Audit is confident that it has operated independently from management. IA does not have direct operational responsibility for day to day business matters, but instead advises managers of their operational as well as tactical responsibilities.
- 4.5 Internal Audit has been set up so that it reports directly into the Executive Head of Transformation, but indirectly into the Audit & Standards chair, as well as the Council's Section 151 officer. In addition Internal Audit has a direct reporting line to the Chief Executive and CMT when matters need to be escalated. The Senior Auditor has direct access to discuss matters arising with the external auditors as and when necessary.

### Adoption of a Formal Mandate

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

- 4.6 An effective internal audit function is required by statute 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 intranet. The Audit Charter covers aspects such as scope of the audit function, rights of access, reporting arrangements, and work prioritisation. The Mandate is currently undergoing its review.

### 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.*

- 4.7 The IA Charter sets out the rights of the IA function and how it is able to operate as well as its boundaries of jurisdiction. In addition rights of access are provided for within larger contracts with external service providers. Examples include the current joint waste contract and the grounds maintenance contract.

### Sufficient Funding

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

- 4.8 The budget for Surrey Heath's Internal Audit function is agreed each year at CMT. Internal audit is part of the Transformation service and is allocated funding proportionately. Current funding is appropriate to the level of the activity and the size of the organisation.
- 4.9 The audit budget has remained at a similar level for the last few years and no additional staff posts have been added to the service. There are no constraints on the overall budget however which is flexible so there would be scope to allow for additional funding to the audit service if required and agreed by management.

### 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.*

- 4.10 The Council benefits from IA officers with many years local government experience. The Senior Auditor is a Chartered member of the governing body for audit, the Institute of Internal Audit and the secondary officer is part qualified.
- 4.11 The Senior Auditor has in practice whilst been acting as “lead officer” for audit for a number of years, in the absence of any qualified audit manager, and represents the audit function at CMT level as well as at Audit & Standards committee.

### Objectivity

*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.*

- 4.12 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 CIIAs declaration of interests. Audit staff has also signed a confidentiality agreement with HR to ensure staff records accessed are held secure.
- 4.13 At all times audit aims to report its key findings objectively, impartially and taking a balanced view wherever possible whilst being sensitive to the needs of the business and its stakeholders CMT, Councillors as well as the local residents.

### 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.*

- 4.14 The Internal Audit team continues to demonstrate that it is meeting the most important characteristics when considering 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 CIIA. 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.

### 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.*

- 4.15 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 where required placed reliance on the work of Surrey Heath’s internal audit in 2020/21 as part of their annual audit of the Council’s financial statements.

Professional Audit Standards

- 4.16 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.

**IMPROVEMENTS FOR INTERNAL AUDIT IN 2020/21**

- 4.17 The 2019/20 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 2020/21:

<b>Areas for Improvement identified in the 2019/20 effectiveness report</b>	<b>Improvements implemented in financial year 2020-21</b>
<u>Joint Waste</u>	A full audit of JWS and the joint waste contract was carried out on behalf of the waste partners. The report was agreed by both JWS as well as the Partnership Board. Contract discussions have continued throughout the year between JWS and Amey.
<u>Organisational re structure</u>	The senior management re structure did not take place in 20/21 but started in 21/22 with the recruitment of the new Chief Executive and any consequences from this will be incorporated into future audits. The proposal to move audit from Transformation to legal/democratic services should help to strengthen the audit function within the organisation.
<u>Investment &amp; Development</u>	An audit of investment and development was carried over and finished in 20/21. It covered property matters such as leases and licenses, as well as governance arrangements over the procurement process of new acquisitions.

## CHALLENGES FOR 2021-22

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

### Auditing with an Agile or Hybrid Workforce

- 4.19 The increase of staff working remotely and from home brings with it its own set of challenges for internal audit. Access to paper documents may not be easily available and audit meetings need to be done virtually via different platforms.

### Staff Capacity

- 4.20 The capacity of officers and senior managers to assist internal audit may affect the timing and delivery of internal audits going forward. Senior officers are having to balance an increase in workload with restricted teams.

### Covid-19 pandemic issues

- 4.21 There are a number of operational matters that continue to be affected by the pandemic. These include working in accordance with the latest government guidelines and rules, maintaining social distancing, staff and contractors working away from the office/council sites, and keeping access to a minimum. There could be reduced staff due to illness, and self-isolation.

## CONCLUSION

- 4.22 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2020/21, with an internal audit function that is compliant with the requirements of the Public Sector Internal Audit Standards.
- 4.23 The audit team will need to be flexible under the current covid 19 rules, and will need to adjust its working practices to fit in with agile working.

<b>Annexes</b>	None
<b>Background Papers</b>	None
<b>Author/Contact Details</b>	Alex Middleton 01276 707303 <a href="mailto:Alex.middleton@surreyheath.gov.uk">Alex.middleton@surreyheath.gov.uk</a>
<b>Head of Service</b>	Louise Livingston, Executive Head: Transformation