

**Surrey Heath Borough Council**  
**Audit & Standards Committee**  
**25 July 2022**

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**Annual Review of the Effectiveness of Internal Audit**

**Head of Service:** Gavin Ramtohal, Head of Democratic & Legal Services  
**Report Author:** Alex Middleton, Head of Internal Audit  
**Key Decision:** No  
**Wards Affected:** N/A

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**Summary and purpose**

To provide an annual review of the effectiveness of the internal audit system for the year 2021-22 as required by the Accounts and Audit Regulations 2006 (amended 2011)

**Recommendation**

The Audit and Standards Committee is advised to RESOLVE that to note and approve the report on the Review of the Effectiveness of Internal Audit

**1. Background and Supporting Information**

- 1.1 An effective and productive Internal Audit function enables local authorities to fulfil their duties to be accountable and transparent to the public, while achieving their objectives effectively, efficiently, economically, ethically as well as environmentally.
- 1.2 Similar to previous years, 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 have been met by Internal Audit at Surrey Heath Borough Council for the period April 2021 to March 2022.

**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.*

- 1.4 For the period 2021-22 Internal Audit has continued to operate independently and at arm's length from management. Audit does not have direct operational responsibility

for day to day business matters, but instead advises managers of their operational as well as strategic responsibilities.

- 1.5 Internal Audit now sits under the Head of Legal and Democratic Services as a result of the Corporate re structure in 2021. However where necessary Audit can also report directly to 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 lead Auditor also 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.*

- 1.6 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 audit charter and mandate are reviewed periodically.

### **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.*

- 1.7 The Audit Charter sets out the rights of the audit 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 Community Shared Services partnership with Runnymede council.

### **Sufficient Funding**

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

- 1.8 The Council's annual budget setting process reviews and agrees the funding for Internal audit each year. In addition the audit activity was subject to CMT and Member scrutiny as part of the Star Chamber process in 2022.
- 1.9 Council funding is flexible so there may be scope to provide additional funding to the audit service if necessary and agreed by management. For example should audit be involved in any special investigation, or where it is found that a service is non-compliant with legislation and requires additional review.

### **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.*

- 1.10 The Council benefits from audit officers with many years local government experience. The Senior Auditor as lead auditor for the service has been a member of the Chartered Institute of Internal Audit for a number of years and the junior officer is part qualified.

- 1.11 The Senior Auditor represents Audit 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.*

- 1.12 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 CIAs declaration of interests. Audit staff have also signed a confidentiality agreement with HR to ensure staff records accessed are held secure.
- 1.13 Auditors aim to report their findings objectively, impartially whilst taking a balanced view wherever possible but being sensitive to the needs of the business and its stakeholders CMT, Councillors as well as the local residents. Audit reviews in 2021-22 continued to consider how the Council is performing not just efficiently and economically but also ethically and environmentally.

### **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.*

- 1.14 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 CIA. 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.*

- 1.15 The work of audit continues to be supported by the Chief Executive, the Section 151 Officer, as well as other members of CMT. Audit and Standards Committee members have also commented upon the hard work and professionalism of the audit team in light of continued budgetary constraints and the Covid pandemic.
- 1.16 The Council is committed to continuing to support the work that Internal Audit delivers. External audit where required placed reliance on the work of Surrey Heath's internal audit in 2021/22 as part of their annual audit of the Council's financial statements.

## Professional Audit Standards

- 1.17 There are a number of Quality Management System elements that the Internal Audit team have adopted and follow. 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 2021/22

- 1.18 The 2020/21 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 2021/22:*

Areas for Improvement identified in the 2020/21 effectiveness report	Improvements implemented in financial year 2021/22
<u>Auditing with an Agile or Hybrid Workforce</u>	Increased use of on line collaborating platforms such as Zoom and Teams. Changing working patterns to work more flexibly, and responding at short notice. Progressing the migration of the authorised signatory process which is maintained by Audit to a digital on line system rather than paper based which relies on officers present
<u>Staff Capacity</u>	Changing working practices to being more dynamic and responsive to service needs and requirements. Moving audits around to different times of the year
<u>Covid-19 pandemic issues</u>	Adapting at short notice to when officers are off with Covid. Consideration to Covid issues when planning and carrying out fieldwork in scheduled audits. Having to place more reliance on digital evidence instead of physical and paper based. Changing risk assessments. Reviewing how Council has responded to absence of staff when undertaking an emergency planning & business continuity audit.

## CHALLENGES FOR 2022-23

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

- 1.20 Two new audits have been included in the Audit Plan for 2022-23. These are Climate Change and Cyber Security. The challenge will be to ensure that they are both delivered effectively and all key risks and controls have been taken on board, given they have not been audited previously.
- 1.21 A number of technical audits have been included in the Plan including planning, and information technology, as well as Cyber security. The challenge will be making sure that auditors have a sufficient knowledge base and a good understanding of these systems so that audit can provide added value to the organisation.
- 1.22 Continuing to provide important corporate advice and consultancy work to CMT, as well as engaging with corporate activities such as assisting with investigations where audit can provide a number of valuable skills and expertise. Reliance is placed by CMT upon this level of support to ensure key processes and policies are in place and are being adhered to.
- 1.23 Undertaking a successful peer review and self-assessment process of the audit function, working with Spelthorne and Elmbridge councils, the aim being to identify opportunities for better service delivery and customer service.

## **CONCLUSION**

- 1.24 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2021/22, with an internal audit function that is compliant with the requirements of the Public Sector Internal Audit Standards.

## **2. Reasons for Recommendation**

- 2.1 The Accounts and Audit Regulations require local authorities to carry out an annual review of the effectiveness of the internal audit function. Insert text

## **3. Proposal and Alternative Options**

- 3.1 No alternative options.

## **4. Contribution to the Council's Five Year Strategy**

- 4.1 Failure to operate an effective internal audit service could reduce the level of assurance given to senior management and Members over the level of risk, controls, accounting records and governance arrangements operating at the Council.

## **5. Resource Implications**

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

## **6. Section 151 Officer Comments:**

- 6.1 Nothing further to add.

## **7. Legal and Governance Issues**

- 7.1 Nothing further to add.

**8. Monitoring Officer Comments:**

8.1 Nothing further to add.

**9. Other Considerations and Impacts**

9.1 None.

**Annexes**

None

**Background Papers**

None