

1. INTRODUCTION

- 1.1 An effective and productive Internal Audit function should enable the Council to fulfil its duties as being accountable and transparent to the public, while achieving its objectives effectively, efficiently, economically, ethically and at the same time sustainably.
- 1.2 The governing body for Internal Audit within the UK, the Chartered Institute of Internal Auditors (CIIA) has identified nine key elements that that help to define a proficient internal audit function:
- ✓ organisational independence
 - ✓ adoption of a formal mandate
 - ✓ rights of access
 - ✓ sufficient funding
 - ✓ competent leadership and culture
 - ✓ objective staff
 - ✓ competent staff
 - ✓ stakeholder support, and
 - ✓ conformance to professional audit standards.
- 1.3 This report examines the extent to which these nine elements have been met by Surrey Heath's Internal Audit team for the reporting period April 2022 to March 2023.

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.

For the reporting period 2022/23 the Internal Audit team has continued to operate independently and at arm's length from management. The audit team have operated with honesty, truthfully, and impartially. The team has demonstrated that it is free from conflicts of interest, including any political or commercial pressures.

The IIA Standards require the Internal Audit team to form its own judgement on how best to segment the audit universe given the structure and risk profile of the Council. It should take into account business strategy and should form an independent view of whether the key risks to the organisation have been identified and assess how effectively these risks are being managed. Internal audit's independent view should be informed, but not determined, by the views of

management. In setting out its priorities and deciding where to carry out more detailed work, internal audit should focus on the areas where it considers risks to be higher.

Audit does not have direct operational responsibility for day to day business matters, but instead advises managers of their operational and strategic responsibilities.

The Internal Audit team reports into the Head of Legal and Democratic Services which provides strategic oversight but also ensures there is some degree of resilience. Audit can also report directly 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 senior officers when matters need to be reported or escalated.

2.2 Adoption of a Formal Mandate

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

The objectives and mission of the Internal Audit service is outlined in the Internal Audit Charter, which also highlights the position of the service in the context of the Council's organisation. This mandate outlines the purpose, authority, scope and responsibility of the Internal Audit function and is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA). The Charter is reviewed periodically and is next scheduled to be refreshed in 2023.

2.3 Rights of access

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

The Audit Charter sets out the rights of access for 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.

The Audit team have worked hard in the last few years in making sure that audit is allowed access to all Council related records, documents, staff, and meetings it requires to fully and effectively conduct its business. The team's profile within the organisation also ensures that access to material is readily made available.

2.4 Sufficient Funding

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

The Internal Audit function needs to be funded to enable a balance of assurance needs and resources within a defined budget to provide reasonable assurance to audit committee and senior management.

In spite of continued budgetary constraints set by government the Internal Audit function is still resourced with minimum margin for error. The Council's annual budget setting process reviews and agrees the funding for Internal audit each year. In addition the audit activity is subject to CMT and Member scrutiny as part of the Budget Review (formally the Star Chamber) process, where the funding for Internal Audit need to be justified and any savings or efficiencies highlighted.

Council funding is flexible so there may be scope to provide additional funding to the audit service by exception 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.

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 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.

The Senior Auditor represents Audit at CMT level as well as at Audit & Standards committee. The Senior Auditor leads on a number of Council initiatives including IR35 and actively participates in officer working groups, including the Corporate Risk group and Equalities working group.

2.6 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.

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.

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.

2.7 Competent Staff/Professional Capability

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 is considered appropriately skilled, trained and supported in its roles and professional development. 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. The auditors demonstrate sound judgement, act professionally, work collaboratively, and behave responsibly at all times, have clearly defined roles and responsibilities, and have been provided with the time and resources required to develop its skills, knowledge and competencies.

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 continues to be supported by the Chief Executive, the Section 151 Officer, as well as other members of senior management. Audit and Standards Committee members have also commented upon the work and professionalism of the audit team in light of continued budgetary constraints.

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 as part of their annual audit of the Council's financial statements.

2.9 Conformance to Professional Audit Standards

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.

3. IMPROVEMENTS FOR INTERNAL AUDIT IN 2022/23

- 3.1 The 2021-22 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 2022/23:

Areas for Improvement identified in the 2021/22 effectiveness report	Improvements implemented in financial year 2022/23
Addressing technical issues and actioning technical based audits	A number of technical based audits were undertaken in 2022/23 including Housing, Health & Safety, parts of the Planning system, and certain aspects of IT. This work will continue to be built upon in the forthcoming year. The Audit team continues to be supported by the use of laptops, and cloud based platforms to enable work to be successfully performed remotely.
Providing important corporate advice and consultancy work to CMT & engaging in corporate activities	Internal Audit have provided support to management in a variety of areas in 22/23, including a Member investigation, the Complaints policy, governance issues around the operation of the Business Improvement District (BID), risk processes and risk management, the Annual Governance Statement and employee Code of Conduct.
Quality management assessment	The QMA exercise and Peer review challenge with Spelthorne and Elmbridge borough councils was deferred in 2022 and has been re scheduled for summer 2023, with the agreement of the 3 authorities and was

	due to work commitments of the audit teams.
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4 CHALLENGES FOR 2023-24

- 4.1 The following challenges for Internal Audit have been identified for the forthcoming financial year:
- 4.2 Internal Audit must remain agile when developing and delivering its core business as the Council and the public sector face evolving challenges. The risk landscape has shifted over the past year and the audit team at Surrey Heath should be able to adapt to these ever changing issues. Areas that need attention include climate change and sustainability, digital disruption and new technologies, and 3rd party relationships with our key contracts and supply chain issues.
- 4.3 The Peer Review and Quality Assurance assessment that was earmarked for 2022 has been deferred until 2023, which was delayed due to the work commitments of the 3 teams. The Council will work with Elmbridge and Spelthorne councils to undertake an independent challenge of the audit processes, records, performance as well as its quality management systems.
- 4.4 The Annual Audit Plan that was agreed back in March 2023 is both challenging and demanding but affords the opportunity for audit to demonstrate its value to the organisation. Whilst the work programme is challenging it will enable a number of Council activities to be reviewed and improvement plans put in place for service departments. This should result in a more robust, consistent and better governed organisation that can meet the challenges ahead.

5 CONCLUSION

- 5.1 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2022-23, with an internal audit function that is compliant with the requirements of the Public Sector Internal Audit Standards.