

**EXTERNAL QUALITY ASSESSMENT  
OF THE INTERNAL AUDIT SERVICE  
FOR SURREY HEATH DISTRICT COUNCIL**

February 2024

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Issued to: Surrey Heath Internal Audit, Surrey Heath District Council

## **1. EXECUTIVE SUMMARY**

### **1.1 Background**

#### Introduction

This report has been prepared following a review of compliance with the Public Sector Internal Audit Standards (PSIAS) and the International Professional Practices Framework (IPPF) on which the PSIAS has been based. The purpose of this report is to provide an overview of the Surrey Heath District Council (SHDC) arrangements for the operation and management of the Internal Audit Service.

The PSIAS applies to all internal audit service providers, whether in-house, shared services or outsourced. The PSIAS define internal audit as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”*.

The PSIAS requires, as outlined in Standard 1300 “Quality Assurance and Improvement Programme”, that:

*“External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment or a self-assessment with independent external validation”*.

This report details the findings from the External Quality Assessment (EQA) undertaken in December 2023 by the Head of Audit and Counter Fraud, Elmbridge Borough Council.

### **1.2 Scope**

The purpose of this EQA is to provide an independent assessment of the extent to which the Internal Audit Service complies with the PSIAS.

The methodology for this EQA, takes the form of a validated self-assessment. As such I have undertaken the following work in arriving at my opinion:

- review of the latest self-assessment and supporting evidence provided by the Audit Manager, SHDC;
- a series of tests using a standard checklist and;
- a review of guidance and process documents and a sample of electronic files;
- applying the CIPFA local government application note and checking conformance with the PSIAS and application note.

### **1.3 Limitations**

I have not undertaken any specific work to assess the effectiveness of the Council’s Audit Committee. My view as to the extent of compliance with the PSIAS cannot be taken as any assurance on the strength of the control environment. It should also be noted that this report does not include

detailed findings from the sample file reviews undertaken but these findings have been used to support my recommendations and opportunities for improvement.

#### **1.4 Areas of Good Practice Identified**

- Generally conforms with PSIAS requirements;
- Regular monitoring of audit performance;
- Periodic reporting of work programme and progress to Members;
- Methodical and thorough working papers supporting audit findings;
- Detailed and effective review of audit assignments;
- Delivery of a varied audit work programme with robust supervision and review;
- Risk based audit plan.

#### **1.5 Conclusion and Main Findings**

The overall conclusion is arrived at following completion of the comprehensive EQA Checklist and based on the work I have undertaken; it is my opinion that the Internal Audit Service for SHDC generally conforms to the PSIAS requirements.

The review has highlighted a small number of areas where improvements can be made. These issues, if addressed, would then enable the Internal Audit Manager for SHDC to be able to report substantial compliance with PSIAS:

- The Audit Charter was last updated in 2021 and could be strengthened by articulating the role of the Board and Senior Management. In addition, consideration should be given to the Audit Committee annually approving the Charter when the Audit Plan is presented for approval.
- Consideration should be given to obtaining stakeholder feedback.
- A risk assessment could be introduced to inform internal audit's plan of engagements to prioritise assignments. This could include an assurance mapping dashboard to strengthen compliance with the standards.
- Consideration should be given to including organisation ethics in the audit plan to evaluate the organisation's ethics framework.

An evaluation of each 'Standard' can be seen in Appendix A of the report.

## **2. FEEDBACK AND EQA FINDINGS**

### **2.1 Audit Charter**

The internal audit team has an Audit Charter in place that was last approved by Audit Committee in 2021. The Audit Charter sets out the definition, responsibilities, objectives, scope, and position of the audit function and is still relevant and reflects the current audit service. The charter could be further strengthened by articulating the role of the Board and Senior Management, The Audit Committee (Board) should approve the internal audit charter and consideration given to including this with the audit plan as an annual activity.

### **2.2 Stakeholder feedback**

Consideration should be given to obtaining stakeholder feedback. However, it is noted that this can often be difficult to secure, and any method should be proportionate to the value that would be secured.

### **2.3 Managing the Internal Audit Activity**

The standards require a documented risk assessment that underpins internal audit activity and an assurance mapping exercise to identify and determine the approach to using other sources of assurance. This is a useful exercise for smaller teams to ensure resource is targeted to the higher risk areas and duplication is removed by placing assurance on other sources, where available.

### **2.4 Organisation Ethics**

The standards require that internal audit activity evaluates the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes, and activities. The team could consider the inclusion of organisation ethics as an annual audit to evaluate the culture of the organisation and the operation of controls and relevant frameworks to underpin this.

**2.5** There were a few very minor findings that were noted during the review that are not proportionate to take further:

- It is noted that the standards suggest the Board are involved in the appointment of the CAE and performance appraisal, this is not relevant for Local Authorities and no findings are made in respect of non-compliance with these standards.
- It is noted that the periodic rotation is constrained by the size of the team, but no finding is made in this respect due to the limitations of a smaller audit team.
- It is noted that dedicated IT auditors are not available, but this is mitigated through the use of external specialists by ICT.

I would like to thank SHDC for their cooperation and provision of records during the review.

Name – Simon White

Job Title – Head of Internal Audit and Counter Fraud

Organisation – Elmbridge Borough Council

**3. ACTION PLAN = priorities, officers, and target dates TBC**

Ref. No.	Finding	Recommendation	Priority	Management Comment	Responsible Officer	Target Date
3.1	Audit Charter was last reviewed in 2021. Potential to strengthen compliance by articulating the role of the Board and Senior Management.	Consider including the Audit Charter with the audit plan for annual review and approval.	M	Both the Audit Charter and Audit Manual have since been reviewed and updated. They were taken to Audit Standards and Risk in Dec 2023 and agreed by Members.	na	Actioned
3.2	The standard requires ongoing performance monitoring including stakeholder feedback. It is recognised that this was sought in the past but proved resource intensive.	Consideration should be given to a proportionate approach to obtaining stakeholder feedback.	M	Agreed. Consideration will be given to how this action point will be addressed and embedded by the audit team in 2024.	Senior Internal Auditor	March 2025
3.3	Internal Audit's planned engagements should be based on a risk assessment. In addition, an assurance mapping exercise should consider other sources of assurance.	Consider implementing a risk dashboard to assess and document the planning activities. This could include an assurance mapping dashboard to integrate the three-lines of defence.	M	Agreed. An more integrated approach to risk management, particularly in the audit planning stage will be adopted.	Senior Internal Auditor	March 2025
3.4	Internal audit activity should evaluate the design, implementation and effectiveness of the organisation's ethics-related objective, programmes, and activities.	Consider inclusion of organisation ethics as an annual audit to assess the organisation's ethical framework.	M	Agreed. It is acknowledged that a number of activities and procedures/policies are already established that address ethics such as the Code of Conduct and the Equality Strategy.	Senior Internal Auditor	March 2025

**SUMMARY OF CONFORMANCE WITH THE PSIAS – Appendix A**

Reference	Assessment Area	Fully Conforms	Generally Conforms	Partially Conforms	Does Not Conform	Comments
Section A	Definition of internal Auditing	✓				
Section B	Code of Ethics	✓				
Section C	Attribute Standards					
1000	Purpose, Authority and Responsibility		✓			Potential to review and strengthen Audit Charter to articulate roles of Board and Senior Management
1100	Independence and Objectivity		✓			Present the Audit Charter to the Audit Committee for approval.
1200	Proficiency and Due Professional Care		✓			It is noted that dedicated IT auditors are not available, but this is mitigated through the use of external specialists by ICT.
1300	Quality Assurance and Improvement Programme		✓			Consideration should be given to stakeholder feedback.



Section D	Performance Standards					
2000	Managing the Internal Audit Activity		✓			Consider implementing a risk dashboard to assess and document the planning activities. Carry out an assurance mapping exercise as part of audit planning.
2100	Nature of Work		✓			Consider inclusion of organisation ethics as an annual audit to evaluate the design, implementation and effectiveness of the organisation's ethics-related objective, programmes and activities.
2200	Engagement Planning	✓				
2300	Performing the Engagement	✓				
2400	Communicating Results	✓				

PRIME DOCUMENTATION AND RECORDS EXAMINED – Appendix B

(documents and records provided by SHDC)

- PSIAS Self-Assessment
- Annual Charter SHBCv4 2021
- Sample of Internal Audit reports & WPs for works undertaken
- Committee Reports
- Anti-Fraud and Corruption Strategy
- Fraud Response Plan Oct 2018
- Bribery Policy
- Code of Conduct for Officers
- Records Management Policy v1
- Corporate Risk Management Strategy
- Corporate Risk Register Jan 2023
- Declaration of Interests Form CURRENT
- Declaration of Officers Interest
- Gifts and Hospitality Form
- SHBC Values and Behaviours Framework
- Surrey Heath Annual Plan 2023-2024
- Audit Manual Revised August 2021 Final