

Annual Review of the Effectiveness of the System of Internal Audit

Portfolio	Finance
Ward(s) Affected:	n/a

Purpose

This report provides an annual review of the effectiveness of the system of internal audit for 2014-15 as required by the Accounts and Audit Regulations 2006, amended 2011.

Background

1. The Accounts and Audit Regulations require the Council annually to conduct a review of the effectiveness of its system of internal audit.

Resource Implications

2. There are no resource implications arising from this report.

Risk Assessment

3. 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.

Recommendations

4. 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 The annual review of the effectiveness of the system of internal audit is required under the Accounts and Audit Regulations 2011. The review has been conducted by the Senior Internal Auditor who is a member of the Chartered Institute of Internal Auditors (CIIA).
- 1.2 The following review has been based upon the following :
- Operation of the Performance and Audit Scrutiny Committee (audit now reports to the Audit & Standards committee)
 - Compliance with the Public Sector Internal Audit Standards
 - External audit assessment of Internal Audit's work
 - Progress made against Internal Audit's work plan for 2014/15 (the annual Audit Plan)
 - Other achievements by Internal Audit in 2014/15.
- 1.3 Potential challenges for internal audit for 2015/16 are set out in section four of this paper.

2. RESULTS OF ANNUAL REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT

Operation of the Performance and Audit Scrutiny Committee

- 2.1 In 2014/15 the P&A Committee played an active role in monitoring and scrutinising the role and function of the internal audit team. The Committee has also received reports from and directed questions to the external auditors, KPMG. The P&A committee review and approve the annual Audit Plan at the start of the year.

Compliance with the Public Sector Internal Audit Standards

- 2.2 All local authorities are subject to the Accounts and Audit Regulations 2011 and must make provision for an internal audit function in accordance with a common set of audit standards, known as the Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors and supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the UK.
- 2.3 To provide optimum benefit to the Council, internal audit should work in partnership with management to improve the control environment and assist the organisation in achieving its objectives. This partnership must operate in such a way as to ensure that legal requirements and those of the PSIAS are met.
- 2.4 Internal Audit assessed conformance with the PSIAS in 2013 and carried out a comprehensive self assessment. The results of the self-assessment exercise were reported to the Section 151 Officer.

- 2.5 Overall the self-assessment was very positive and demonstrated that internal audit is generally compliant with the Standards and Code within the PSIAS. Some areas for improvement were identified and an action plan has been developed and the team are working with management to address these improvements. For example developing clear reporting lines, assessing customer feedback, and developing a quality assurance framework are areas that can be developed. These areas have been developed in 2014, and work is underway to ensure these areas are fully embedded into the audit work programme in 15/16.

Confirmation of the organisational independence of the Internal Audit Service

- 2.6 The PSIAS require confirmation of the organisational independence of Internal Audit. This review confirms that Internal Audit is sufficiently senior and independent within the Council's structure to allow constructive challenge to the Management team. This is evidenced by the following:

- Approval of the internal audit charter by the P&A Committee
- Approval of the risk based audit plan by the P&A Committee
- Senior Auditor has reported regularly to Management Board (MB) and P&A Committee on risk issues, and internal audit reports
- The senior auditor is able to address any concerns directly with the Chief Executive or with the External auditor KPMG.

Performance against the Annual Audit Plan and Achievements of Internal Audit Service in 2014/15

- 2.7 Detail of the achievements of the Internal Audit Service in 2014-15 is set out in the Internal Audit Annual Report which is subject to a separate report.

External audit assessment of Internal Audit's work

- 2.8 Every year internal audit carried out a number of finance based audits after consultation with the Council's external auditors. Their formal assessment of internal audit's work is normally reported as part of the ISA260 report to Members in Quarter 2 each year.

Combined Assurance

- 2.9 Internal Audit is one of the main providers of assurance to Members and the management team. It provides managers with information about the risks and opportunities as well as governance arrangements that have been identified throughout the year.

2.10 In addition the team has worked with other assurance providers such as external audit, and other government departments to ensure work is not duplicated or internal resources are not wasted by unnecessary duplication. This is known as providing a combined level of assurance.

3. IMPROVEMENTS TO THE SYSTEM OF INTERNAL AUDIT 2014-15

3.1 The 2013/14 effectiveness annual review set out a number of recommendations that required addressing in the year.

3.2 Table 1 below sets out how these recommendations have been addressed.

Table 1

Improvements to system of internal audit implemented in 2014/15

Area for Improvement as identified in the 2013/14 review	Improvements implemented in 2014/15
<p>The local government landscape is changing at a rapid rate. The internal audit team recognises this and the importance of adopting a flexible and pragmatic approach to service delivery. In particular the team will need to focus on change and provide a greater challenge and scrutiny function. The team also recognises that unscheduled work is likely to appear during the year, and the team will need to be able to react to this.</p>	<p>The team has continued to play an active role in undertaking ad hoc audit reviews in 14/15. Amongst these were a separate Camberley theatre review, a parks income review, and a Windle Valley community services review. The team has also played a leading role developing the Finance division's business continuity arrangements.</p>
<p>Internal Audit must continue to develop if it is to continue to offer a challenging and objective service. The team will need to focus on understanding the whole organisation and its objectives; be seen as a catalyst for improvement; add value and assist the Council in achieving its objectives; and be forward looking.</p>	<p>Internal Audit has contributed to several areas to assist the business objectives of the Council. Internal Audit has provided the Champion for the business continuity work stream, the team has participated in the equality and diversity officer working group promoting and developing the Council's equalities arrangements in the work place, and audit has also begun to look into Council initiatives such as the Christmas fayre and ice rink offering.</p>
<p>The Council is currently involved with several important projects dealing with contractors and third</p>	<p>Several projects have been reviewed by internal audit in 2014/15 including the Surrey Heath Show in May 2014</p>

parties. Internal Audit should get involved with helping management to provide an overview and scrutiny of these projects.	& 15, Frimley Lodge Live, the theatre café trading, and the capital expenditure on a new cinema projector at the theatre.
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4. CHALLENGES FOR 2014/15

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

New Financial Regulations

- 4.2 A new and improved set of Financial Regulations have been developed and are due to be adopted following review by the Governance Working Group. Internal Audit will play an important part by reviewing the roll out and introduction of these new arrangements, and by checking all new and existing officers have been trained and briefed on the new Regulations.

Events and New Business Cases

- 4.3 A number of business cases are currently under development or have been given approval to proceed in 2015/16, and internal audit have been asked by the management team to critically review their performance against the original business case. These include the 3G pitch facilities at Frimley Lodge, the Christmas Fayre and ice rink offering, the Surrey Heath Show, the Frimley Lodge Live festival amongst others.

5. CONCLUSION

- 5.1 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2014/15, with an internal audit function that is compliant with the requirements of the 2013 Public Sector Internal Audit Standards.