

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 2015-16 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 control.

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

Author: Alex Middleton 01276 707303
e-mail : alex.middleton@surreyheath.gov.uk

Head of Service: Kelvin Menon – Executive Head of Finance

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:
- Work programme and decisions from the Audit & Standards Committee
 - Compliance with the Public Sector Internal Audit Standards
 - External audit review of Internal Audit's work
 - Performance against Internal Audit's work plan for 2015/16
 - Other achievements by Internal Audit in 2015/16
- 1.3 Potential challenges for internal audit for the 16/17 financial year are set out in section 4 of this paper.

2. FINDINGS FROM THE REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT

Work of the Audit and Standards Committee

- 2.1 In 2015/16 members from the Audit & Standards 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. Members of the committee review and approve internal audit papers including 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 The assurance that the work of internal audit provides helps to ensure that the standards 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 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 continuing to work with management to continually address these improvements.

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 committee
 - Approval of the risk based audit plan by committee
 - Senior Auditor reports to CMT as well as Members of the Audit & Standards committee on risk issues, and internal audit reports
 - Internal Audit has direct access to the Chief Executive or with the Council's external auditors if necessary.

Performance against the Audit Plan and Achievements of Internal Audit in 2015/16

- 2.7 Detail of the completed work programme of Internal Audit in 2015/16 is set out in the Internal Audit annual report.

External Audit review of Internal Audit's work

- 2.8 The external auditors review the work programme of internal audit and the reports produced by the internal audit team as part of their year end work undertaken on the financial statements.

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 financial 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. By providing this combined level of assurance the internal audit team can provide the best possible and most efficient service to the authority.

3. IMPROVEMENTS TO THE SYSTEM OF INTERNAL AUDIT 2015/16

- 3.1 The 2014/15 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 2015/16

Area for Improvement as identified in the 2014/15 review	Improvements implemented in 2015/16
Introduction of new Financial Regulations.	The Council's set of Financial Regulations have been revamped. The revisions have been agreed at Full Council and by the Corporate Governance working group. They will be fully rolled out in 16/17.
New business initiatives and events	The internal audit team has assisted the business service in delivering new initiatives around the borough. Risk assessments have been developed for events such as the Surrey Heath show, the Winter fayre, and the summer festival Frimley Lodge Live. Internal audit has worked with business services staff in helping to identify controls that need to be put in place, such as cash handling, and staff and building security.
New business cases.	External business cases were reviewed as part of the use of consultants/professional advisors audit carried out in 15/16.

4. CHALLENGES FOR 2016/17

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

Council wide capacity issues

- 4.2 Council staff continue to face delivering 'business as usual' activities whilst having to explore opportunities for cost efficiencies and savings, and considering different ways of working. Internal audit will need to

adapt and be flexible in its working patterns and operations to work with services to carry out audits when there are conflicting capacity issues and resources are limited from time to time.

5. CONCLUSION

- 5.1 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2015/16, with an internal audit function that is compliant with the requirements of the 2013 Public Sector Internal Audit Standards.
- 5.2 The audit team has continued to broaden its remit across the authority to ensure that it plays a wider role working with business units to help them to deliver their services, achieve better results and reduce risk. Examples of this sharing areas of best practice with services and identifying value for money.