

**ANNUAL REVIEW OF THE EFFECTIVENESS OF
THE SYSTEM OF INTERNAL AUDIT**

Portfolio	Finance
Ward(s) Affected:	n/a

Purpose

To provide an annual review of the effectiveness of the system of internal audit for 2016-17 as required by the Accounts and Audit Regulations 2006, amended 2011.

1. Background

- 1.1 The Accounts and Audit Regulations require the Council annually to conduct a review of the effectiveness of its system of internal control.

2. Resource Implications

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

3. Risk Assessment

- 3.1 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.

4. Recommendations

- 4.1 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 Internal Audit should be configured appropriately to enable public bodies such as local councils to fulfil their duty to be accountable and transparent to the public, while achieving their objectives effectively, efficiently, economically and ethically.
- 1.2 The governing body for Internal Audit within the UK, with Chartered status, the Chartered Institute of Internal Auditors (IIA), has identified nine key elements needed to establish an effective public sector audit activity, 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 each of these nine elements are met by Internal Audit for Surrey Heath Borough Council.

2. Organisational Independence

- 2.1 *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.*
- 2.2 Internal Audit operates with a deal of independence from management. An Audit Committee has been established, the Audit and Standards Committee and the Internal Audit team's work is reported to this committee on a regular basis. Internal Audit reports to the Section 151 Officer but a direct reporting line to the Chief Executive has also been established. The Senior Auditor also has direct access to discuss issues with the external auditors where necessary. Audit reports are presented to CMT and PMG for review and comment.

3. Adoption of a Formal Mandate

- 3.1 *Internal Audit's powers and duties should be established by a formal mandate or other legal document.*
- 3.2 The Council has established and adopted an internal audit charter. This is available to all staff and Members and is published on the Council's internal website. The Audit Charter covers aspects such as scope of the audit function, rights of access, reporting arrangements, and work prioritisation. The Internal Audit team is also involved in the formal reporting of audit results to senior management by way of formal audit reports. Internal auditing is also required by regulation as it is set down in the Local Government Act.

4. Unrestricted Access

- 4.1 *Audits should be conducted with complete and unrestricted access to staff, property, and records as appropriate for the performance of the audit activities.*
- 4.2 At Surrey Heath rights of access are included within the Audit Charter. In addition rights of access are provided for within contracts with external service providers where Internal Audit is also required from time to time to audit other service provider's activities. Examples include the Arena contract and the waste collection contract.

5. Sufficient Funding

- 5.1 *Internal Audit should have sufficient funding relative to the size of its audit responsibilities.*
- 5.2 The budget for the Council's Internal Audit service is agreed each year through the Star Chamber, and is signed off by management on an annual basis. Funding is sufficient to deliver the Annual Plan agreed by members each year.

6. Competent Leadership

- 6.1 *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.*
- 6.2 The current Senior Auditor has been working for the Council in excess of 15 years and is a Chartered member of the governing body for audit, the Institute of Internal Audit. Audit performance is also measured against compliance with Public Sector Internal Audit Standards. The Senior Auditor is also the spokesperson for the audit activity, and is responsible for promoting the value of the internal audit activity with the Council, as well as keeping up to date with industry and regulatory changes and professional standards through training and access the audit websites.

7. Objective Staff

- 7.1 *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.*
- 7.2 Internal Audit should work 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, such as signing up to the declaration of interests. The objectivity of Internal Audit's officers is an integral element of delivering an effective audit service on behalf of the Council.

8. Competent Staff

- 8.1 *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.*
- 8.2 The Internal Audit team can demonstrate that it meets the 3 most important characteristics when assessing the competence level within the team. The Senior Auditor holds a staff professional certification, being a Certified Internal Auditor (which is the top ranked professional certificate held by internal audit staff in the public sector). In terms of IIA membership, all auditors at the Council are members of the IIA, and one officer has a minimum of 40 hours of formal training in year (through Post Entry Training).
- 8.3 The Internal Audit team is also able to demonstrate holding the top 5 behavioural skills as identified by the IIA, namely confidentiality, objectivity, communication skills, judgement, and working independently.

9. Stakeholder Support

- 9.1 *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.*
- 9.2 The work of audit is supported by the Chief Executive, the Section 151 Officer, members of CMT as well as the Audit Committee. The Council is fully committed to promoting the work of its Internal Audit team and the added value that it can provide. External also review the work of Internal Audit and the reports the team produces as part of their end of year accounts process.

10. Professional Audit Standards

- 10.1 The Internal Audit team works towards the internationally 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 and which are reported to Members on a periodic basis.

11. IMPROVEMENTS TO THE SYSTEM OF INTERNAL AUDIT 2016/17

- 11.1 The 2015/16 effectiveness report set out recommendations that required addressing in the year.
- 11.2 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 2015/16 review	Improvements implemented in 2016/17
Capacity issues within service areas	Internal Audit has demonstrated flexibility and adaptiveness when planning its audits, and carrying out fieldwork. The team has worked closely with services to ensure disruption is kept to a minimum, and to ensure services can continue to deliver their services effectively whilst they are being audited.

12. CHALLENGES FOR 2017-18

- 12.1 The following challenges for Internal Audit have been identified for the forthcoming financial year:
- Changing skillsets and competencies
- 12.2 The traditional role and associated skills of a public sector auditor is changing. An increasing number of Council services are being delivered electronically, relying more

on virtual and cloud based technologies. The Council is moving at a quick pace with its digitalisation agenda.

12.3 In addition the Council is investing more heavily in property to help increase income from rents. Inevitably this relies on increased borrowing and rents.

12.4 In order for Internal Audit to continue to demonstrate added value it will need to develop skillsets and competences that can audit these new areas. These may come from training and development so that audit can keep up with the new demands and pressures.

13. CONCLUSION

13.1 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2016-17, with an internal audit function that is compliant with the requirements of the 2013 Public Sector Internal Audit Standards.

13.2 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.