

Audit Committee

17 October 2017



Title	Effectiveness of the system of Internal Audit		
Purpose of the report	To note		
Report Author	Internal Audit Manager, Punita Talwar		
Cabinet Member	Councillor Howard Williams	Confidential	No
Corporate Priority	Financial Sustainability		
Recommendations	There are no recommendations.		
Reason for Recommendation	Not applicable.		

1. Key issues

- 1.1 'Internal auditing is 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'. (Definition of Internal Auditing - Public Sector Internal Audit Standards)
- 1.2 The Public Sector Internal Audit Standards (PSIAS) have been adopted by the Certified Institute of Public Financial Accounting (CIPFA) and apply to internal audit service providers working within the public sector, whether in-house, shared services or outsourced.
- 1.3 PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:
 - Definition of Internal Auditing
 - Code of Ethics
 - Core Principles and
 - International Standards for the Professional Practice of Internal Auditing
- 1.4 Requirements relating to quality assurance are set out in the PSIAS, with some extracts highlighted below:

'The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The

quality assurance and improvement programme must include both internal and external assessments’.

‘External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- *The form of external assessments.*
- *The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest’.*

1.5 The PSIAS were reviewed and updated in April 2017 with the following changes relating to the quality assurance process for Internal Audit:

In addition to the original statement that:

‘The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board’

additional requirements now include that the

‘Disclosure should include :

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans’.

1.6 To ensure compliance with the PSIAS, the Chief Audit Executive at Spelthorne (Internal Audit Manager, CMIIA qualified) has undertaken an annual internal self-assessment of audit activity which takes into consideration:

- (a) **Statutory requirements for Internal Audit**
- (b) **Conformance with the Public Sector Internal Audit Standards (PSIAS)**
- (c) **External Audit assessment**
- (d) **Internal Audit output / outcomes – 2016/17**
- (e) **Improvement plan – 2017/18**

1.7 Statutory requirements

1.7.1 Aims and objectives for Internal Audit are set out in the 2017/18 Service Plan, which are largely focussed on fulfilling statutory requirements and compliance with professional standards. The Audit Plan sets out proposed work in each financial year and is approved annually by the Audit Committee in March. Actual work undertaken during 2016/17 was reported to Audit Committee in September 2016 (Interim report) and June 2017 (Annual Internal Audit report).

1.8 Conformance with Public Sector Internal Audit Standards

- 1.8.1 The Public Sector Internal Audit Standards define the way in which the Internal Audit service should undertake its functions and also set out its independent organisational status to ensure objectivity.
- 1.8.2 All Internal Audit staff are mindful of the core principles that need to be applied in their roles (integrity, objectivity, confidentiality and competency) and have signed up to a Code of Ethics based on the Public Sector Internal Audit Standards.
- 1.8.3 The Internal Audit Manual ensures all practices are aligned to the Public Sector Internal Audit Standards.

1.9 External audit assessment

1.9.1 External Audit assess the work of Internal Audit at interim and final audit stages, and all audit reports and recommendations raised during 2016/17 were submitted to External Audit . There is also regular dialogue between Internal and External Audit during the year. Current regulations do not allow External Audit to use Internal Audit work to inform their own opinions and therefore they place a lower level of reliance on Internal Audit than previously. No issues of concern were raised by External Audit for 2016/17.

1.10 Internal Audit output / outcomes – 2016/17

- 1.10.1 Internal Audit provides management and Members with assurance that the Council's key risks are being properly managed, and provides advice on enhancing control where necessary. Audit Committee have highlighted their appreciation of the work of the team.
- 1.10.2 Based on Internal Audit work undertaken, the Internal Audit Manager provided an opinion on the Councils internal control environment, which fed into the Annual Governance Statement for 2016/17. The Annual Audit report presented to the June 2017 meeting of the Audit Committee sets out audit work undertaken during 2016/17.
- 1.10.3 There is regular coordination and updating of the Council's Corporate Risk Register, reporting three times a year to members of Audit Committee and Cabinet. The Audit Committee monitors significant issues raised in the Corporate Risk Register and Managers have attended the committee on some occasions to provide updates where there are outstanding risk mitigating actions.
- 1.10.4 The Internal Audit Manager ensured ongoing provision of the service with reduced resource during the long term sickness of the Senior Auditor, which required some reprioritising of the Internal Audit plan.
- 1.10.5 In addition to fulfilling its statutory functions, Internal Audit delivered the following:
- 1.10.6 Supported management in a number of confidential investigations during the year, often highlighting lessons to be learnt.
- 1.10.7 Provided a wide range of advice to managers and internal working groups aimed at improving risk management and adding value.

1.10.8 Corporate Counter Fraud - The Internal Audit Manager continued to collate quarterly corporate fraud returns for submission to Surrey County Council. Significant payback/returns have been achieved since the commencement of this DCLG initiative in January 2015 and as at 30.6.17 the cumulative fraud return is £931,000. Internal Audit were successful in securing a growth bid for additional corporate counter fraud resource for 2017/18 to target areas which are likely to generate greater financial payback and benefits for the authority (business rates and housing). The Internal Audit Manager attends the Surrey Counter Fraud Board (SCFB) which has enabled the sharing of best practice and approaches in tackling housing fraud/business rate avoidance and evasion. Surrey partners have been keen to learn about Spelthorne's impressive fraud returns in the area of business rates. The Internal Audit Manager chairs the internal corporate counter fraud working group and disseminates any best practice.

1.10.9 The team continued to maintain good working relationships with Surrey County Council Internal Audit with a number of the audit recommendations raised being well received by auditees. It has also been useful to share expertise and knowledge of Surrey County Council Auditors, adding value to such an arrangement.

1.10.10 The Senior Auditor undertook an ICT Audit of the Share Point system at Waverley Borough Council, generating some income for the authority. Positive feedback has been received from client sites with regards delivery of ICT audit reviews. The Senior Auditor has also applied knowledge and experience acquired from work undertaken at other sites to Spelthorne.

1.10.11 During 2016/17 Internal Audit have continued to encourage Managers representing the first line of defence to provide assurance that controls in their functions/services are operating effectively. Group Heads or Deputy Chief Executives have also been asked to sign off internal audit reports for their respective areas to confirm that reports are factually correct and controls are operating as described.

1.10.12 Internal Audit's performance is managed through the Council's performance management framework. Performance reviews are carried out annually, whilst service and personal targets are monitored periodically. Staff appraisals take place and there are regular opportunities for informal discussions at 1-1's.

1.10.13 Following the organisational restructure Internal Audit liaised closely with Group Heads and Managers to discuss any emerging corporate risks and ensure significant issues arising were incorporated into the 2017/18 Audit Planning process.

1.11 Improvement Plan 2017/18

1.11.1 The Internal Audit Charter setting out the purpose, authority and responsibility of the function together with the manual will be reviewed and updated as necessary to ensure they reflect latest revisions to Public Sector Internal Audit Standards.

- 1.11.2 Internal Audit to continue to liaise periodically with Group Heads and Managers to discuss emerging corporate risks and review significant issues arising. Audit time/resource can then be directed to where it is most needed and the audit plan reprioritised as necessary. To promote greater management ownership of controls and risk mitigating actions, Group Heads and Deputy Chief Executives (as appropriate) will be required to provide confirmation that audit recommendations for their respective functions have been implemented. This approach was endorsed by Management Team in June 2017.
- 1.11.3 To supplement informal customer feedback, measures will be taken to obtain formal customer feedback from auditees through issue of surveys, enabling any scope for improvements to the audit process to be highlighted and considered.
- 1.11.4 To set up periodical meetings with the Portfolio Holder (Councillor Williams) to discuss corporate risks, ensuring timing coincides with production of relevant reports.
- 1.11.5 The team consists of the Internal Audit Manager (0.6 FTE), Senior Auditor (FT) and some bought in time from Surrey County Council Internal Audit. Where possible efficiencies in approaches are implemented, so for example the Senior Auditor is currently applying knowledge and experience acquired from a Cyber Security Audit recently undertaken at Woking Borough Council to Spelthorne as the same audit is being carried out here. Similarly some of the audits to be assigned to the Surrey Auditor have been undertaken recently at a neighbouring authority which should enhance sharing of best practice.
- 1.11.6 Opportunities to sell ICT Audit expertise to other organisations (private sector as well as other local authorities/non-profit) will continue to be explored, with a view to generating further income for the authority as well as enhance staff development opportunities. The Senior Auditor continues to apply knowledge and expertise gained from the recently acquired CISA qualification (Certified Information Systems Auditor) both to Spelthorne and work undertaken with external clients.
- 1.11.7 From August 2017 additional counter fraud resource has been procured from Reigate and Banstead Council, focusing on housing and business rates. This contractual arrangement is being closely monitored by the Internal Audit Manager to ensure effective delivery of the specification. Financial payback and wider benefits achieved will be assessed periodically and reported to Management Team/Members. Overview and Scrutiny Committee have requested a report for the January 2018 committee on Business Rates and Avoidance of Payment as this forms part of their work programme.

2. Options analysis and proposal

- 2.1 Not Applicable.

3. Financial implications

- 3.1 Resources required (staff time) to implement improvement plan actions should be contained within existing budgets as far as possible.

4. Other considerations

- 4.1 Not Applicable.

5. Timetable for implementation

5.1 Improvement Plan actions to be delivered by 31 March 2018.

Background papers: Public Sector Internal Audit Standards

Appendices: There are none.