

# Audit Committee

01 November 2018



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

## 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. (see below)*
- *The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest'. (see below)*

1.4 As set out above an 'External Quality Assessment' for Internal Audit is a requirement under the Public Sector Internal Audit Standards (PSIAS) and the process is currently underway through a three way reciprocal arrangement with two other local authorities in Surrey. This arrangement is considered acceptable by the Chartered Institute of Internal Auditors UK. Alternative options for undertaking this review were explored and considered in advance, with approval of the preferred approach sought from the Deputy Chief Executive (Chief Finance Officer) and the Chief Executive. The qualifications and independence of the external assessor, including any potential conflict of interest were also considered. It can be confirmed that there was no known conflict of interest, and the three way reciprocal arrangement ensures independence whilst also providing an opportunity for Auditors working at borough level authorities to share best practice. All Auditors undertaking the review at respective sites are suitably qualified (holding either CMIIA or CCAB qualifications) with extensive internal audit experience. The external assessment has focussed on compliance with the Public Sector Internal Audit Standards (PSIAS).

1.5 As part of this process the respective Internal Audit Managers/Heads of Internal Audit have each completed a detailed PSIAS self-assessment checklist (70 page document) and collated associated evidence for the 2017/18 period which has been validated by peers. The outcome of the review for Spelthorne including the overall conclusions of the assessor and any corrective action plans will be reported to Audit Committee in due course (following production of the report by the Head of Audit at Elmbridge). In the interim it seems appropriate to highlight key outcomes from Internal Audit activity relating to 2017/18, as ascertained from the self-assessment process. These provide examples of conformance with Public Sector Internal Audit Standards (PSIAS) and/or demonstrate how Internal Audit has added value.

#### 1.6 **Internal Audit output / outcomes – 2017/18**

1.6.1 Risk Based Audit Planning – a risk based approach is applied to determine the annual audit plan of activity to be undertaken each year through consultation with Group Heads and Managers, consideration of the Corporate Risk Register and all known auditable areas (audit universe). The plan is approved by Audit Committee (March) and used to evaluate (through risk assessment) and improve the effectiveness (through delivery of agreed audit recommendations) of risk management, control and governance processes within the organisation. As new risks emerge the audit plan objectives are

reviewed and reprioritised. During 2017/18 there was a significant period of unplanned sickness absence in the team and therefore reprioritising of the plan took place.

- 1.6.2 Assurance Framework - Internal Audit represents the third line of defence in the assurance framework and provides independent assurance to management and councillors that the Council's key risks are being properly managed, with advice on enhancing control and addressing weaknesses where necessary. Consideration is given to all sources of assurance for each area in the Audit Plan as this will influence time allocations/areas of focus for the audit. Regular assurance reporting to Audit Committee summarising work undertaken and assurance ratings granted for specific reviews has taken place throughout the year. 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 are requested to sign off internal audit reports for their respective areas to confirm that reports are factually correct and controls are operating as described.
- 1.6.3 Independent Audit Opinion - based on Internal Audit work undertaken, the Internal Audit Manager provided an opinion on the Council's internal control environment, which fed into the Annual Governance Statement for 2017/18. The Annual Audit report presented to the July 2018 meeting of the Audit Committee sets out audit work undertaken during 2017/18.
- 1.6.4 Follow Up of Audit Recommendations - to promote greater management ownership of controls and risk mitigating actions, Group Heads and Deputy Chief Executives (as appropriate) are required to provide confirmation that agreed audit recommendations for their respective functions have been implemented. The Internal Audit Manager reports the direction of travel in implementing audit recommendations to Management Team and Audit Committee (Annual Audit Report and Interim Audit Report). This approach was endorsed by Management Team in 2017 and is working well.
- 1.6.5 Quality Assurance and Improvement Programme – Internal Audit's performance is managed through the Council's performance management framework. The internal audit service plan outlines the key performance data that will measure delivery of the service. Annual performance reviews are carried out, with service and personal targets monitored periodically through appraisals and 1-1's. An external quality assessment of Internal Audit activity focusing on 2017/18 is underway and a review of the 'Effectiveness of Internal Audit' is already undertaken annually and reported to Management Team and Audit Committee each Autumn. All audits undertaken apply methodology set out in the PSIAS and are subject to a review process by the Internal Audit Manager. These combined mechanisms provide opportunities to identify ongoing improvements in working practices as well as highlight achievements.
- 1.6.6 Scrutiny and review - External Audit assess the work of Internal Audit at interim and final audit stages, and all audit reports and recommendations raised during 2017/18 were submitted to External Audit at their request. 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 2017/18.

1.6.7 Declaration of Interest – An annual declaration of interest submission is a requirement for all officers at Spelthorne in accordance with the staff code of conduct. This ensures that any potential conflicts of interest or matter that may impair their ability to be impartial and unbiased in performing their duties are appropriately managed. No conflicts of interest have been declared during 2017/18 from Internal Auditors' submissions. Paragraph 1.7.5 also gives reference to a Professional Code of Ethics for Internal Auditors.

1.6.8 Proficiency and Due Professional care– The Internal Audit Manager holds a professional auditing qualification from the Chartered Institute of Internal Auditors and has full chartered status (CMIIA). The former Senior Auditor gained an ICT Audit qualification in 2017 (Certified Information Systems Auditor) and applied skills in undertaking ICT Audits both at Spelthorne and Woking. Contracted audit resource was used to plug skills gaps in some areas to supplement in-house skills and knowledge, or to fill resource shortages. The Internal Audit Manager is confident that Internal Audit possesses or has the means to obtain, the skills, knowledge or other competencies required to deliver its responsibilities.

1.6.9 Corporate (Non-Audit Work) - Corporate Risk Management - The Internal Audit Manager regularly coordinates and updates 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 advise where there are outstanding risk mitigating actions. The efficiencies associated with Internal Audit's role in coordinating the Corporate Risk Register have been highlighted to Management Team and Audit Committee, for example significant audit recommendations are transferred onto the Corporate Risk Register to enable regular monitoring and review. Similarly, the Corporate Risk Register is used to inform the audit process including planning.

1.6.10 Corporate (Non-Audit Work) - Corporate Counter Fraud - The Internal Audit Manager continued to collate quarterly corporate fraud returns for submission to Surrey County Council. Significant payback/returns are continuing to be achieved from the counter fraud work and as at 30.6.18 the cumulative return for Spelthorne in terms of notional savings to the public purse exceeds £1.9m (since the start of the Surrey Fraud Partnership in January 2015 and shared across SBC, Surrey CC and Surrey Police) with estimated cashable savings for Spelthorne of £354k. Specifically for the 2017/18 period, the overall savings to the public purse equated to £676,805 with cashable savings for Spelthorne amounting to £92,603.

Arrangements to buy-in additional counter fraud resource to target areas which are likely to generate greater financial payback (business rates and housing) has taken effect from August 2017. Spelthorne is procuring services from Reigate and Banstead and the Internal Audit Manager worked closely with relevant teams to scope the specification and finalise the contractual arrangements, which continue to be closely monitored. Collaborative working

has produced positive outcomes particularly in Housing with the introduction of enhanced verification checks for new claims. Referrals to Reigate since the commencement of the contract until 31.3.18 have demonstrated significant returns for Housing equating to over £400K (notional savings to the public purse). There have also been wider benefits for Spelthorne's Housing team with opportunities to enhance learning and skills in this area. A joint report prepared by the Deputy Group Head for Customer Relations and Internal Audit Manager was issued to Overview and Scrutiny Committee in January 2018 highlighting measures being taken by Spelthorne to address business rates tax avoidance and evasion, along with further initiatives to explore.

## 1.7 **Improvement Plan 2018/19**

- 1.7.1 The improvement areas identified from the PSIAS self-assessment checklist are as follows :
- 1.7.2 An Internal Audit Charter setting out the purpose, authority, responsibility and organisational independence of the function is held but requires refreshing to reflect the current resourcing position. It should be noted however that most of the content contained in the existing Charter is still relevant. The Internal Audit Manager intends to update the Charter by December 2018 ensuring it reflects all requirements of the PSIAS, with subsequent reporting to Audit Committee. It is intended that the Charter will be reviewed either biennially or annually thereafter and reported to Management Team and Audit Committee at the appropriate time of year.
- 1.7.3 Organisational Independence - The Internal Audit Manager reports directly to the Deputy Chief Executive (Section 151 and Chief Finance Officer) who is a member of the corporate Management Team, and also has access to the Chief Executive and the Audit Committee. The Internal Audit Charter states 'Internal Audit will have unrestricted access to the Audit Committee, Chief Executive, Members of Council, the Deputy Chief Executives and all employees of the authority'. The Internal Audit Manager is confident that the reporting lines allow the Internal Audit activity to fulfil its responsibilities. The Internal Audit Manager attends every meeting of the Audit Committee as well as the Chairman's pre-meetings. The Deputy Chief Executive and Internal Audit Manager have also met separately with the Portfolio Holder for Finance and Audit as necessary. In order to preserve internal audit's independence and objectivity, the requirement to arrange at least one independent meeting a year between the Internal Audit Manager and the Chair of the Audit Committee as well as more informal liaison was raised by an external trainer during Audit Committee training in July 2018 and is also promoted in the PSIAS. Therefore this needs to be considered further in order to meet best practice.
- 1.7.4 Consideration is being given to developing an Internal Audit Strategy that clearly sets out the purpose and vision of Internal Audit, its links to organisational objectives and priorities, how the service will be developed in accordance with the Audit Charter.
- 1.7.5 Internal Audit staff have signed up to a Code of Ethics based on the Public Sector Internal Audit Standards. This gives reference to several core principles expected of Auditors, including integrity, confidentiality, objectivity and independence. Auditors have been reminded at regular intervals of the

importance of complying with this Code of Ethics, including at appraisals. There are no known breaches of the Code of Ethics. It is acknowledged that the Code requires revising and refreshing, with a view to re-issuing to team members. In future Auditors will be asked to submit an electronic confirmation on an annual basis to confirm their adherence to the Code of Ethics.

- 1.7.6 A comprehensive internal audit manual is held and whilst the content is still relevant, as with any procedure manual there is always scope for periodical review to enable any updated practices to be incorporated and documented as a reference point for all team members. Therefore a refresh and review will be undertaken at some stage.
- 1.7.7 Corporate Risk Management – Given that the Internal Audit Manager is responsible at Spelthorne for coordinating and updating the Council's Corporate Risk Register which falls under the category of corporate non-audit work, it seems inappropriate for Internal Audit to periodically review the effectiveness of the organisation's corporate risk management processes as part of the Internal Audit planned activity. Such a review is a requirement under PSIAS and therefore this is an area that the Deputy Chief Executive (S151 Officer) may wish to consider further in conjunction with the detailed findings in the forthcoming external quality assessment report.
- 1.7.8 Internal Audit will possibly consider undertaking a review of Organisational Ethics in 2019/20 as this is a requirement under PSIAS i.e. to evaluate the design, implementation and effectiveness of the organisation's ethics related objectives, programmes and activities.
- 1.7.9 To supplement informal feedback received from auditees, customer satisfaction questionnaires will be issued promptly and consistently following issue of the final audit report, enabling any scope for improvements to the audit process to be highlighted and considered.

## **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 aim to be delivered by 31 March 2019.

## **Background papers: Public Sector Internal Audit Standards**

**Appendices: There are none.**