

Audit Committee

18 March 2021



Title	Annual Review of Internal Audit Effectiveness
Purpose of the report	To note
Report Author	Punita Talwar, Internal Audit Manager
Cabinet Member	Councillor Sati Buttar
Confidential	No
Corporate Priority	Financial Sustainability
Recommendations	Audit Committee is asked to: 1. Note the Annual Review of Internal Audit Effectiveness, overall conclusions and any actions arising.
Reason for Recommendation	Not applicable.

1. Key issues

- 1.1 From April 2013, internal audit professional bodies including CIPFA adopted a unified set of Public Sector Internal Audit Standards (PSIAS). These are based on the Chartered Institute of Internal Auditors (CIIA) global Professional Practices Framework. The standards were updated further in 2017.
- 1.2 The internal audit activity at Spelthorne aspires to accomplish the Mission of Internal Audit defined in PSIAS '*To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight*' as set out in the approved Audit Charter of July 2019.
- 1.3 PSIAS require internal audit functions to carry out an annual self-assessment to determine conformance against the standards, and an independent external assessment to be undertaken at least every five years (the latter was undertaken in November 2018). The outcomes from the recent self-assessment including any areas for improvement are set out at Appendix 1. Whilst the review focuses on conformance to PSIAS for the 2019/20 financial year, given that we are now approaching the end of 2020/21 reference is also made to more recent activity where appropriate. The assessment incorporates the requirements of the PSIAS as well as the Local Government application note (LAGN).

- 1.4 The overall conclusion from the self-assessment undertaken in February 2021 by the Internal Audit Manager is that Spelthorne's Internal Audit function largely conforms with the PSIAS.
- 1.5 In developing an overall assessment of conformance with the PSIAS, the key consideration is how conformance with the detailed standards and Code of Ethics supports the evaluation of conformance with each of the core principles. These principles taken as a whole articulate internal audit effectiveness (as stipulated in PSIAS) and are listed at paragraph 1.6.
- 1.6 Core audit principles include:
- Demonstrates integrity
 - Demonstrates competence and due professional care
 - Is objective and free from undue influence (independent)
 - Aligns with the strategies, objectives, and risks of the organisation
 - Is appropriately positioned and adequately resourced
 - Demonstrates quality and continuous improvement
 - Communicates effectively
 - Provides risk-based assurance
 - Is insightful, proactive and future-focused
 - Promotes organisational improvement
- 1.7 Conformance with each of the ten core principles is set out at Appendix 1, together with any new proposed actions to ensure continuous improvement. Under principle 6 (Quality and continuous improvement) the current status of previous improvement actions is also outlined.
- 1.8 The improvement actions arising from the self-assessment undertaken in February 2021 to strive for even greater conformance with PSIAS and best practice are also highlighted below (as well as at Appendix 1) for speed of reference:

Principle 2. Demonstrates competence and due professional care.

2(i) The Council already supports the audit team in pursuing professional internal audit qualifications, recognising that this contributes to continually improving proficiency, effectiveness, and quality of services. This action is ongoing.

2(ii) Auditor skills and competencies framework to be completed to support ongoing monitoring of training and development needs.

Principle 3. Is objective and free from undue influence (independent).

3 (i) Spelthorne's organisation chart should be updated to incorporate the dotted lines between the Chief Audit Executive (Internal Audit Manager) and the Chief Finance Officer, and likewise to the Chief Executive.

3(ii) The Audit Charter was fully refreshed in July 2019 setting out the purpose, authority, responsibility, and mission of Internal Audit in adherence

to PSIAS requirements. Biennial review of the Audit Charter is already scheduled for July 2021 and will be further refreshed to reflect revised direct reporting arrangements that took effect from March 2020.

Principle 5. Is appropriately positioned and adequately resourced.

5.(i) The Group Head of Corporate Governance will be advising the Audit Committee on audit resourcing as part of her review of processes and resources.

Principle 6. Demonstrates quality and continuous improvement.

6(i). Future reporting could include the percentage of agreed audit recommendations implemented in a given period as this demonstrates a measurable outcome in terms of value added by the audit service.

6(ii). The CAE to reconvene periodical independent meetings with the Chair of the Audit Committee (at least one formal meeting a year as per PSIAS).

Principle 7. Communicates effectively.

7(i). Consistent timeliness of audit reporting needs to be considered as part of the audit resourcing review and scope for building greater capacity.

7(ii). Improving the timeliness of management responses to audit recommendations contributes to the efficiency of the audit process and is a consideration for the corporate management team and Audit Committee. It is recognised that organisational capacity remains significantly stretched across all service areas.

2. Options analysis and proposal

The Committee are asked to note the outcomes of the annual effectiveness review of the system of Internal Audit for 2019/20 and any improvement actions arising.

3. Financial implications

3.1 Resourcing implications in implementing improvement actions will need to be considered as part of the review of audit resourcing and processes being undertaken by the Group Head of Corporate Governance.

4. Other considerations

4.1 There are no specific considerations with reference to Equality and Diversity.

5. Sustainability/Climate Change Implications

5.1 An internal audit review of Climate Change is scheduled for March 2021 as part of the 2020/21 audit plan and will provide assurance on how the authority is addressing climate change risks and considering positive opportunities. This also demonstrates how Internal Audit is adhering to principle 4 of PSIAS '*Aligns with the strategies, objectives, and risks of the organisation*'.

6. Timetable for implementation

6.1 Timeframes for implementation of the improvement actions set out in this report under paragraph 1.8 and at Appendix 1 are to be discussed and agreed with the Group Head of Corporate Governance and the corporate management team.

Background papers:

Public Sector Internal Audit Standards (PSIAS).

**Public Sector Internal Audit Standards self-assessment incorporating the
Local Government Application Note**

**Appendices: Appendix 1 – Assessment of conformance to the core principles
of the Public Sector Internal Audit Standards**