

# Audit Committee

28 July 2022



<b>Title</b>	Annual review of Internal Audit Effectiveness
<b>Purpose of the report</b>	To note
<b>Report Author</b>	Punita Talwar, Internal Audit Manager
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Exemption Reason</b>	Not Applicable
<b>Corporate Priority</b>	Community Affordable housing Recovery Environment Service delivery
<b>Recommendations</b>	<b>Committee is asked to:</b>  <b>1. Note the Annual Review of Internal Audit Effectiveness, overall conclusions and any actions arising.</b>
<b>Reason for Recommendation</b>	Not applicable

## 1. Summary of the report

- 1.1 Public Sector Internal Audit Standards (PSIAS) require internal audit functions to carry out an annual self-assessment to determine conformance against the standards, as well as an independent external assessment to be undertaken at least every five years. An external assessment is planned to be undertaken towards the end of 2022 through a reciprocal arrangement with two other Surrey authorities.
- 1.2 This report seeks to summarise the outcomes from the recent self-assessment undertaken by the Internal Audit Manager in July 2022, including any areas for improvement, as detailed at Appendix 1. The annual review focuses on conformance to PSIAS for the 2021/22 financial year (backwards looking), and 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).

1.3 The overall assessment demonstrates that against all 10 principles of PSIAS (which taken as a whole articulate internal audit effectiveness) we conform. There are some specific actions that could further improve and enhance practices, as discussed under sections 2.5 to 2.6.

## 2. Key issues

2.1 The purpose and objectives of the PSIAS are to:

- define the nature of internal auditing in the public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation
- establish the basis for the evaluation of internal audit performance and to drive improvement planning

2.2 “A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector “(PSIAS).

2.3 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 2.4 below.

2.4 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

2.5 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) there are two previous improvement actions that remain outstanding, one of which is a corporate action, and the rationale is provided at Appendix 1 (point 2 under principle 6).

2.6 The improvement actions arising from the self-assessment undertaken in July 2022 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) An Auditor skills and competencies framework has been drafted, to be completed across the team to support ongoing monitoring of training and development needs. The current in-house audit team possess a combined 35 years of internal audit experience.

*Proposed Timeframe: October 2022.*

*Ownership: Internal Audit Manager and Senior Auditor*

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

3(i) 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. Revised direct reporting arrangements that took effect from March 2020 have already been reflected in the Charter.

Review of the Audit Charter is due to be undertaken shortly, for approval by the Audit Committee at the November 2022 meeting. There are not anticipated to be any significant updates to the current version of the Charter, as it is still considered relevant.

*Proposed Timeframe: October 2022.*

*Ownership: Internal Audit Manager*

3(ii). Whilst several productive discussions and meetings were held during 2021/22 with the Chair and Vice-Chair of the Audit Committee, these were not specifically independent of Council Officers. The CAE to reconvene periodical independent meetings with the Chair of the Audit Committee (at least one formal meeting a year as per PSIAS).

*Proposed Timeframe: From September 2022.*

*Ownership: Internal Audit Manager and Audit Committee Chair*

## **Principle 5. Is appropriately positioned and adequately resourced.**

5.(i) Further to discussions around resources with the Audit Committee and Management Team, the Internal Audit Manager has reflected again on service needs. Early options have been set out, with a view to exploring and seeking optimum approaches to utilising any increased resource, in order to deliver priorities based on the audit needs assessment and wider business need. The permanent Group Head of Corporate Governance is due to take up her position at Spelthorne from September 2022 and will be advising the Audit Committee further on audit resourcing.

*Proposed Timeframe: To be advised by the new Head of Corporate Governance*

*Ownership: Group Head of Corporate Governance*

**Principle 6. Demonstrates quality and continuous improvement.**

6(i). Future reporting could include the percentage of agreed audit recommendations implemented in a given period (eg within 3 to 6 months) considering the target date specified by the Manager, as this demonstrates a measurable outcome in terms of value added by the audit service.

*Proposed Timeframe: Reporting once to twice a year, from November 2022 to coincide with the next cycle of reporting to the Audit Committee.*

*Ownership: Internal Audit*

**Principle 7. Communicates effectively.**

7(i). Internal Audit already specify timeframes when requesting management responses to audit recommendations. Improving the timeliness and in some cases adequacy 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, and this is no doubt a contributory factor to delays on some occasions.

*Proposed Timeframe: Ongoing review by the Audit Manager*

*Ownership : Lead contact (s) for the audit, comprising Groups Heads, Managers, Management Team.*

**3. Options analysis and proposal**

- 3.1 The Committee are asked to note the outcomes of the annual effectiveness review of the system of Internal Audit for 2021/22 and any improvement actions arising.

**4. Financial implications**

- 4.1 There are none.

**5. Risk considerations**

- 5.1 Failure to achieve any of the core principles set out under section 2.6 would imply that an internal audit function is not as effective as it could be in achieving internal audit's mission 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight' (PSIAS).
- 5.2 The Internal Audit Manager's overall assessment demonstrates that against all 10 principles of PSIAS (which taken as a whole articulate internal audit effectiveness) the service conforms, and there are a few low to medium priority areas where the degree of conformance could be further enhanced. These will be mitigated through the improvement actions highlighted in this report.

5.3 Where completion of improvement actions identified as part of the annual review of audit effectiveness (self-assessment) can be factored into existing capacity levels, this will be pursued, but will need to be assessed as part of ongoing review of service priorities.

## **6. Legal considerations**

6.1 Public Sector Internal Audit Standards (PSIAS) are based on the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF).

## **7. Other considerations**

7.1 There are none.

## **8. Equality and Diversity**

8.1 There are no specific implications.

## **9. Sustainability/Climate Change Implications**

9.1 An internal audit review of Climate Change was concluded during 2021/22 and provided assurance on how the authority is addressing climate change risks. The review raised several audit recommendations to strengthen and enhance controls. This demonstrates how Internal Audit is adhering to principle 4 of PSIAS '*Aligns with the strategies, objectives, and risks of the organisation*', given also that the Environment forms part of the Council's corporate priorities under the acronym 'CARES'.

## **10. Timetable for implementation**

10.1 Timeframes for implementation of the improvement actions are set out in this report under paragraph 2.6 and at Appendix 1.

## **11. Contact**

11.1 Punita Talwar, Internal Audit Manger

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### **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**