

Audit Committee

29 September 2016



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.		

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'. (The Global Institute of Internal Auditors)
- 1.2 Changes are proposed to the International Standards for the Professional Practice of Internal Auditing, due to be announced on 1st October, to take effect from January 2017. The following proposed changes relate to assessments of Internal Audit:

'External assessments enhance a complete quality assurance and improvement program and may be accomplished through a full external assessment, or a self-assessment with independent external validation'.

'An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal activity belongs. The chief audit executive should encourage board participation in the quality assurance and improvement program to reduce perceived or potential conflicts of interest'.
- 1.3 The Accounts and Audit Regulations (Amendment) (England) Regulations state that "the relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit".
- 1.4 This review takes into consideration:
 - (a) **Statutory requirements for Internal Audit**
 - (b) **Compliance with the Public Sector Internal Audit Standards**
 - (c) **External Audit assessment**

(d) **Internal Audit output / outcomes – 2015/16**

(e) **Improvement plan – 2016/17**

1.5 Statutory requirements

- 1.5.1 Aims and objectives for Internal Audit are set out in the 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 2015/16 was reported to Audit Committee in September 2015 and July 2016.

1.6 Compliance with Public Sector Internal Audit Standards

- 1.6.1 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.
- 1.6.2 All Internal Audit staff have signed up to a Code of Ethics based on the Public Sector Internal Audit Standards.
- 1.6.3 The revised Internal Audit Manual ensures all practices are aligned to the Public Sector Internal Audit Standards.

1.7 External audit assessment

- 1.7.1 External audit assess the work of Internal Audit annually, although they are no longer allowed to use Internal Audit work to inform their own opinions. No issues of concern were raised by external audit in 2015/16.

1.8 Internal Audit output / outcomes – 2015/16

- 1.8.1 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.
- 1.8.2 The Internal Audit Manager provided an opinion on the Council's internal control environment, which fed into the Annual Governance Statement for 2015/16. The Annual Audit report presented to the July 2016 meeting of the Audit Committee sets out audit work undertaken during 2015/16.
- 1.8.3 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 been asked to provide updates to the Committee on a number of outstanding actions.
- 1.8.4 In addition to fulfilling its statutory functions, Internal Audit:
- 1.8.5 Supported management in a number of investigations during the year.
- 1.8.6 Provided advice to managers/internal working groups aimed at improving risk management and adding value.
- 1.8.7 The Internal Audit Manager collated quarterly corporate fraud returns for submission to Surrey County Council and met regularly with Housing and Investigating Officers to develop and monitor the documented fraud referral

process as well as discuss specific challenges. Significant payback/returns have been achieved from the DCLG grant funding (reported separately).

- 1.8.8 The partnership with Surrey County Council Internal Audit has provided additional resilience for the team with its source of experienced auditors. In addition, Surrey County Council Auditors have on occasion provided specialist expertise, adding value to such an arrangement.
- 1.8.9 ICT Audit expertise has been provided to other local authorities, including Surrey, Elmbridge and Woking. Positive feedback has been received from Managers at these client sites with regards delivery of these ICT audit reviews. The Senior Auditor has also applied knowledge and experience acquired from work undertaken at other sites to Spelthorne. For example, having completed an Incident Management process review at Surrey County Council, it was considered timely to carry out such a review at Spelthorne, promoting a more efficient way of working.
- 1.8.10 During 2015/16 Internal Audit have encouraged Managers to provide assurance (via formal sign off) that controls in their functions/services are operating effectively. For a number of functions Audit have populated a simplified risk and control assurance template in collaboration with auditees and are continuing to pursue this exercise for all areas.
- 1.8.11 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.

1.9 Improvement Plan 2016/17

- 1.9.1 Following the organisational restructure, Internal Audit are liaising closely with Group Heads and Managers to discuss any emerging corporate risks and review significant issues arising. Audit time/resource can then be directed to where it is most needed.
- 1.9.2 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. It is anticipated that the partnership with Surrey will continue to provide additional resilience for the team and staff development opportunities.
- 1.9.3 The ICT audit day rate chargeable to clients has been increased with effect from April 2016. Opportunities to sell ICT Audit expertise to other organisations (private sector as well as other local authorities/non-profit) is being explored, with a view to generating further income for the authority.
- 1.9.4 Internal Audit will continue to work with managers to reduce the risk of fraud and encourage relevant processes to be embedded. The Internal Audit Manager has prepared a business case for a corporate fraud resource, with a view to generating further financial savings and benefits for the authority.

2 Options analysis and proposal

2.1 N/A

3 Financial implications

- 3.1 Resources required (staff time) to implement improvement plan actions should be contained within existing budgets as far as possible.
- 3.2 See separate business case report on Corporate Fraud Resource (growth bid requested and anticipated that this resource would be self-funding providing sufficient returns are generated).
- 4. Other considerations**
 - 4.1 N/A
- 5. Timetable for implementation**
 - 5.1 Improvement Plan actions to be delivered by 31 march 2017.

Background papers: There are none.

Appendices: There are none.