

**Title of Report: Review of the Effectiveness of Internal Audit 2020/21**

**Report of: Darren Collins, Strategic Director, Resources and Digital**

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### **Purpose of the Report**

1. To ask the Committee to review the effectiveness of internal audit within the Council for 2020/21.

### **Background**

- 2 The Accounts and Audit Regulations 2015 require all authorities to “conduct an annual review of the effectiveness of internal audit and for a committee of the body to consider its findings” and that this process should be part of the annual review of the effectiveness of the system of internal control, which results in the production of the Annual Governance Statement. Best practice highlights that “internal audit”, in this context, includes not only the Internal Audit Service but also the Audit and Standards Committee in 2020/21.
- 3 The review ensures that the opinion of the Chief Internal Auditor given in the Internal Audit Annual Report, included as a separate report on this agenda, can be relied upon as a key source of evidence in the Annual Governance Statement.
- 4 The Strategic Director, Resources and Digital has delegated responsibility to maintain an adequate internal audit of the Council’s financial affairs as required by Section 151 of the Local Government Act 1972.
- 5 The review of the effectiveness of the system of Internal Audit for 2020/21 has been undertaken by the Council’s Internal Control Group, which includes the Strategic Directors of Resources & Digital and Corporate Services & Governance. This review is based upon the following:
  - Self-assessment against Public Sector Internal Audit Standards (PSIAS).
  - Self-assessment against the CIPFA Statement on the Role of the Head of Internal Audit.
  - Reliance placed upon Internal Audit by the Council’s external auditor.
  - Assessment of the effectiveness of the Audit and Standards Committee.
  - Relevant performance information.

### **Self-assessment against PSIAS**

- 6 The PSIAS require an external assessment of internal audit functions to be completed every five years. In compliance with PSIAS the Internal Audit Service

was assessed against current Internal Audit practices and compliance with professional standards by Mazars during 2019/20.

7 The standards have four areas as detailed below:

- Definition of Internal Auditing;
- Code of Ethics;
- Attribute Standards; and
- Performance Standards.

8 As reported to Audit and Standards Committee in April 2020, the outcome of the assessment was positive and found that the Internal Audit Service is substantially compliant with requirements of the PSIAS and the CIPFA Application Note, with a number of minor areas for continued improvement identified.

### **Self-Assessment against the CIPFA Statement on the Role of the Head of Internal Audit**

9 This assessment requires an evaluation of how the five principles of this statement are embedded within the Council and the Chief Internal Auditor's skills and personal experience. The statement has common themes with the PSIAS. The self-assessment has been amended since last year to reflect CIPFA's updated statement on the Role of the Head of Internal Audit issued in April 2019. Arrangements were found to be compliant with the statement and a copy is attached at Appendix A.

### **Reliance Placed Upon Internal Audit by the Council's External Auditor**

10 A joint working protocol is in place between Internal Audit and the Council's external auditor, Mazars. Wherever possible the external auditor will seek to rely upon the work of Internal Audit in discharging their own responsibilities. During 2020/21 Mazars did not place specific reliance on any of Internal Audit's work but through regular monthly meetings work has been co-ordinated wherever possible and intelligence shared.

### **Assessment of the Effectiveness of the Audit and Standards Committee**

11 CIPFA's guidance "Audit Committees – Practical Guidance for Local Authorities (2018)" includes a checklist for measuring the effectiveness of the Council's Audit and Standards Committee. This assesses in more detail some of the areas examined in the assessment against PSIAS.

12 A review, based on this guidance, was carried out by the Council's Internal Control Group on 8 June 2021. This covered the following areas:

- Purpose and Governance
- Functions of the Committee
- Membership and Support
- Effectiveness of the Committee

- 13 Evidence includes the Constitution and the Audit and Standards Committee's overseeing of risk management, counter-fraud arrangements and the Annual Governance Statement. This review found the Audit and Standards Committee to be operating effectively. A copy of the assessment is attached at Appendix B.

### **Performance Information**

- 14 Performance monitoring of the work carried out by the Internal Audit Service provides further assurance that the system of Internal Audit is operating effectively and adding value to the Council as a whole. During 2020/21 the following key performance indicators are relevant:
- 96% of audits were completed within budgeted time against a target of 90%.
  - Productive or chargeable time was recorded at 67% of overall time against an annual target of 66% of overall time.
  - The average score of the customer satisfaction questionnaires returned is 3.92 (98%) against a target of 3.4 (85%).
  - The target for implementation of audit recommendations is 100% for high priority recommendations and 90% for medium priority and best practice recommendations. The current rate of implementation of all recommendations is 84%, with 83% of all medium priority and 100% of all high priority recommendations having been implemented.
- 15 Due to the ongoing pandemic, benchmarking exercises were suspended by CIPFA during 2020/21. As previously reported to the Audit and Standards Committee on 28 October 2019, benchmarking for 2019/20 highlighted the Internal Audit Service as being low cost with high productivity in comparison with other local authorities. The Service has continued to be low cost and high productivity demonstrating that the Council is receiving value for money from its Internal Audit Service.

### **Opinion of the Effectiveness of Internal Audit**

- 16 Based on the review detailed above the Council's Internal Control Group concluded that the Council's System of Internal Audit is operating effectively.

### **Recommendations**

- 17 The Committee is asked to consider and endorse the opinion that the Council's system of internal audit is operating effectively.

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