

REVIEW OF THE INTERNAL AUDIT SERVICE 2021/22

AGENDA ITEM No. 19

MEETING: POLICY AND RESOURCES COMMITTEE

DATE: 2ND MARCH 2022

REPORT BY: CORPORATE MANAGEMENT TEAM

1.0 Purpose of the Report

1.1 The purpose of this report is to provide information to enable the Policy and Resources Committee to undertake the annual review of the effectiveness of the Council's Internal Audit Service for the 2021/22 financial year, in accordance with non-statutory best practice.

2.0 Background to the Report

2.1 The Accounts and Audit Regulations 2015 require the Council to *'undertake an effective internal audit to evaluate the effectiveness of its risk management, internal control and governance processes, taking into account public sector internal auditing standards or guidance'*.

2.2 The Public Sector Internal Audit Standards, issued in 2013, have not been formally applied to smaller authorities such as town and parish councils, although the Council has voluntarily taken these standards into account in the development of its Internal Audit Code of Practice.

2.3 The non-statutory 'guidance' on internal audit for smaller authorities referred to in the Accounts and Audit Regulations 2015 is set out in Section 4 of 'Governance and Accountability for Smaller Authorities in England', and this guidance needs to be taken into account by smaller authorities in order to deliver an effective internal audit.

2.4 It is recommended in this non-statutory guidance that *'smaller authorities should, at least annually, carry out a review of the overall effectiveness of their internal audit arrangements'*.

2.5 This review should provide sufficient assurance to the Council that the standards of an adequate and effective internal audit of its risk management, internal control and governance processes have been maintained throughout the year.

2.6 The review should be primarily about the effectiveness of internal audit and not the process and should therefore focus upon the quality of delivery of the internal audit service and the assurance this provides to the Council on risk and internal control.

- 2.7 The extent of scope of the review should be assessed by reference to the Council's own individual circumstances, but should include, as a minimum, an assessment of the following:-
- The scope of internal audit;
 - Independence of the Internal Auditor;
 - Competence of the Internal Auditor;
 - Relationships with the Town Clerk and Council; and
 - Audit planning and reporting arrangements.
- 2.8 If the review identifies any areas for development, an action plan should be produced for the Council to manage the remedial process.
- 2.9 The review must be undertaken by the Council and cannot therefore be undertaken by the Internal Auditor, another officer of the Council or by the external auditor as part of their review of the Annual Governance and Accountability Return.
- 2.10 This report is therefore intended to provide the relevant information and evidence to enable the Policy and Resources Committee to undertake the annual review of the Council's Internal Audit Service for the 2021/22 financial year on behalf of the Council.
- 2.11 The outcome of the review will be recorded in the minutes and subsequently agreed by Full Council when it approves the minutes of this Committee.

3.0 Annual Review of the Council's Internal Audit Service

- 3.1 Due to the relatively small size of the Town Council and the scope of its services and functions, the Council's Internal Audit Service is made up of one part-time member of staff working 18 hours per week.
- 3.2 The working hours were increased from 15 hours per week in April 2017 following the Council's move to the limited assurance external audit regime. This increase in hours was implemented in order to compensate for the reduction in 'on site' external audit coverage.
- 3.3 The additional hours enable the Internal Auditor to undertake a higher level of checks on key financial systems and internal controls, governance and financial management arrangements, financial reporting, value for money and year-end accounts, thereby helping to compensate for the reduced level of on-site external audit coverage.
- 3.4 Based on the total annual hours available, an Annual Internal Audit Plan has been developed amounting to a total of 108 days.
- 3.5 This Annual Internal Audit Plan allows all of the Council's major systems and service areas to be reviewed at least once a year and also enables full assurance to be given on the internal control objectives set out in the Annual Internal Audit Report within the Annual Governance and Accountability Return.

- 3.6 The Annual Internal Audit Plan also includes sufficient contingency to provide for the Internal Auditor's training and development requirements, provision for the audit of any new systems or services, and the undertaking of fraud investigations, as and when necessary.
- 3.7 The Internal Auditor is a competent person with the Association of Accounting Technicians (AAT) qualification and extensive experience in undertaking internal audit in the public sector.
- 3.8 The Internal Auditor has undertaken refresher training in recent years, including the CIPFA training course "An Introduction to Internal Audit".
- 3.9 The Internal Auditor is completely independent and does not have any responsibility for, or involvement in, the financial operations and decision making of the Council, and is free from any conflicts of interest.
- 3.10 The Council's Financial Regulations specifically stipulate that *'the Internal Auditor will have no involvement in the financial decision making, management and control of the Council and will not, under any circumstances, perform any operational duties for the Council, initiate or approve any financial transactions, or direct the activities of any Council employee'*.
- 3.11 The work of the Internal Auditor is supported by the Finance Manager, Town Clerk and service managers who are responsible for ensuring that appropriate financial regulations, standing orders, policies, procedures, and internal controls are in place and being properly managed and followed across all systems and services.
- 3.12 Whilst the Finance Manager acts as the Internal Auditor's line manager, he cannot and does not direct or influence her work.
- 3.13 The Internal Auditor meets the non-statutory requirements for internal audit for town and parish councils, as set out in Section 4 of Governance and Accountability for Smaller Authorities in England, by undertaking audit examinations of all major services, events, activities, systems, and processes by:-
- Undertaking an assessment of risk;
 - Reviewing the systems of governance and internal control;
 - Ensuring the completeness, accuracy and reliability of financial management information and accounting records;
 - Ensuring compliance with relevant laws and regulations;
 - Ensuring compliance with the Council's Financial Regulations, Standing Orders and all other relevant approved Council policies and procedures;
 - Ensuring the protection of the Council's assets;
 - Promoting the prevention and detection of fraud;
 - Reporting on a quarterly basis to the Council's Audit, Risk and GDPR Sub-Committee; and
 - Completing and signing the Annual Internal Audit Report within the Annual Governance and Accountability Return.

- 3.14 The Internal Auditor prepares a risk-based Annual Internal Audit Plan setting out the planned programme of internal audit work for the year, highlighting the number of audit man days that have been allocated to each individual audit.
- 3.15 During 2021/22, the Audit Plan is projected to achieve the planned 108 audit days.
- 3.16 The conclusions and recommendations from each internal audit are recorded in an audit report and, where necessary, an action plan, which sets out a timetable for the implementation of any recommendations.
- 3.17 Audit reports and action plans are agreed with the appropriate service manager and progress in implementing any recommendations is recorded on a schedule and monitored by the Internal Auditor.
- 3.18 Progress on the Internal Audit Plan including a summary of the audit tests undertaken and the conclusions and recommendations from individual audits are reported to and considered by the Council's Audit, Risk and GDPR Sub Committee on a quarterly basis. The minutes of the Audit, Risk and GDPR Sub Committee are ratified by the Policy and Resources Committee.
- 3.19 The Internal Auditor also completes the Internal Audit Report within the Annual Governance and Accountability Return for the Council at the end of each financial year, which focusses on the key internal control objectives that are expected to be in place within all smaller authorities.
- 3.20 The work of the Internal Auditor also significantly informs the annual review of the effectiveness of the Council's system of internal control, and the review of the Council's governance arrangements as documented in the Annual Governance Statement within the Annual Governance and Accountability Return.
- 3.21 Any major weaknesses in internal controls highlighted by the Internal Auditor during the year within individual audit reports, and any significant audit recommendations and action plans are incorporated into the annual review of the effectiveness of internal control.
- 3.22 The Council has in place an Internal Audit Code of Practice which sets out the purpose, powers and objectives of the Internal Auditor as well as formalising the standards and procedures that are expected to be followed and the documentation that must be maintained.
- 3.23 In relation to the prevention and detection of fraud, the Council has in place an Anti-Fraud and Corruption Policy setting out the Council's framework for preventing and detecting fraud and corruption, and the procedures for the reporting, investigation, and prosecution in relation to occurrences of fraud and corruption.
- 3.24 This policy is regularly reviewed to ensure that it meets current requirements, and the Internal Auditor monitors compliance with its requirements.

- 3.25 The Internal Auditor would undertake any fraud investigations, as and when required, with support from the Town Clerk, Finance Manager, and relevant service manager, in accordance with the policy.

4.0 Conclusion of the Review

- 4.1 It is view of the Council's corporate management team that the internal audit arrangements currently in place are operating effectively and remain relevant to the size of the Council and the scope of its activities.
- 4.2 The Internal Auditor has not identified any significant internal control issues during the year and the Council's governance and internal control arrangements are considered to be sound and effective.
- 4.3 The Policy and Resources Committee is requested to consider the information put forward by the management team regarding the internal audit service and support the conclusion that the Council's internal audit arrangements are effective.
- 4.4 This conclusion will then be taken into account in the consideration of the annual review of the effectiveness of the Council's system of internal control and in the approval of the Annual Governance Statement later in the year.

5.0 Policy Implications

- 5.1 An effective internal audit service contributes to the following Council Strategic Aims:-

Aim 1 "To provide good quality governance and management of the Council".

Aim 2 "To manage the Council's finances and assets in a responsible manner".

6.0 Staffing Implications

- 6.1 There are no staffing implications arising from the report.

7.0 Financial Implications

- 7.1 The maintenance of an effective Internal Audit Service helps the Council to meet its responsibility under the requirements of the Accounts and Audit Regulations 2015 to '*undertake an effective internal audit to evaluate the effectiveness of its risk management, internal control and governance processes, taking into account public sector internal auditing standards or guidance*'.

8.0 Crime and Disorder Implications

- 8.1 The maintenance of an effective Internal Audit Service and an effective system of internal financial control assists the Council in the prevention and detection of fraud.

9.0 Equal Opportunities Implications

9.1 None.

10.0 Environmental and Climate Change Implications

10.1 None.

11.0 Risk Assessment

11.1 The completion of the Annual Internal Audit Plan is a key contributing factor in ensuring effective risk management arrangements are maintained within the Council.

11.2 The Annual Internal Audit Plan is prepared based on an assessment of the risks associated with each service area and system.

11.3 A specific risk assessment is not required in relation to the requirements of this report.

12.0 General Data Protection Regulation (GDPR)

12.1 There is no personal or sensitive data required for this proposal which may have any implications for GDPR.

13.0 Recommendations

13.1 It is recommended that:-

- the Policy and Resources Committee receives the information set out in the report and supports the conclusion of the Corporate Management Team that the Council's Internal Audit Service is effective; and
- the outcome of the Policy and Resources Committee's review of the effectiveness of the Internal Audit Service is taken into account in the consideration of the annual review of the effectiveness of the Council's system of internal control and the approval of the Annual Governance Statement later in the year.