



Signed off by	Chief Finance Officer
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To	Audit Committee
Date	Wednesday, 6 September 2023
Executive Member	Deputy Leader and Portfolio Holder for Finance, Governance and Organisation

Key Decision Required	N
Wards Affected	(All Wards);

Subject	Internal audit - 2022/23 annual report and opinion
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Recommendations

- (i) **That the Audit Committee note the annual internal audit report and opinion available at annex 1, and the management responses available at annex 2; and,**
- (ii) **That the Audit Committee make any comments and/or observations on the reports to the Council's Chief Finance Officer.**

Reasons for Recommendations

In accordance with its constitutional responsibilities and the Council's Internal Audit Charter, the Audit Committee is required to receive the annual internal audit opinion of the Council's Chief Internal Auditor.

Executive Summary

The Council's Chief Internal Auditor is responsible for the delivery of an annual audit opinion which provides a view on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The annual internal audit opinion also informs the Council's annual governance statement.

For the 12 months ending 31 March 2023, the opinion of the Council's Chief Internal Auditor is as follows:

'I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the internal control environment.

In my opinion frameworks of governance, risk management and management control are reasonable and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.'

The Audit Committee has the authority to approve the above recommendations.

Statutory Powers

1. The requirement of an internal audit function in local government is detailed within the Accounts and Audit (England) regulations (2015), as amended by the Accounts and Audit (Amendment) Regulations 2022, which state that authorities must: 'undertake an effective internal audit to evaluate the effectiveness of [their] risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
2. The latter standards are defined in the Public Sector Internal Audit Standards (PSIAS) which were last updated in 2017.
3. In accordance with these standard and the Council's Internal Audit Charter, the internal auditors are required to provide senior management and the Audit Committee with an annual report and opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
4. The annual report and opinion informs the Council's Annual Governance Statement, a statutory document required by Regulation 4(2) of the Accounts and Audit Regulations 2003, later amended by the Accounts and Audit (Amendment) (England) Regulations 2006. The Annual Governance Statement reports on compliance with the Council's Code of Corporate Governance.
5. Under Section 151 of the Local Government Act (1972), the Council's Chief Finance Officer holds the statutory responsibility for the overall financial administration of the Council's affairs and is therefore

Background

6. A professional, independent and objective internal audit service is a key element of ensuring good corporate governance.
7. The Council's internal auditors are the Southern Internal Audit Partnership (SIAP).
8. The PSIAS defines internal audit as 'an independent, objectives assurance and consulting activity designed to add value and improve an organisations 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.'
9. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance

arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and are operating effectively.

10. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.
11. The Council's Chief Internal Auditor – the Head of the Southern Internal Audit Partnership – is responsible for the management of the Council's internal audit activity.
12. The Audit Committee approved the 2022/23 internal audit plan at its meeting on 15 March 2022. The plan details the activity to be undertaken during the year.
13. The audit plan is risk based and determines the priorities of internal audit activity. The plan is kept under close review to ensure that it continues to be relevant to the Council's risk profile and to ensure an appropriate level of audit coverage throughout the year.
14. Under the Council's Constitution the Audit Committee is responsible for reviewing internal audit progress reports and monitoring delivery of the annual audit plan.
15. The Audit Committee receives regular quarterly updates on the progress of delivery of the audit plan, including any agreed amendments to the audit plan.

Key Information

2022/23 annual report and opinion

16. The annual report of SIAP and the audit opinion for 2022/23 is available at annex 1.
17. Section 4 of this annex provides the internal audit opinion for 2022/23.
18. For the 12 months ending 31 March 2023, the opinion of the Council's Chief Internal Auditor is as follows:

'I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the internal control environment.

In my opinion frameworks of governance, risk management and management control are reasonable and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.'

19. A report considered by the Committee at its meeting of 19 July 2023 provided information on the progress of delivering the 2022/23 internal audit plan.
20. A separate report on the Committee's agenda for this meeting provides information on the progress of delivering the 2023/24 internal audit plan, also including audits originating from the 2022/23 internal audit plan completed since the Q4 progress report considered in July.

2022/23 observations

21. Section 5 of SIAP's report provides an overview and summary of the key observations arising from the reviews concluding in 2022/23.

22. SIAP's report notes that *'in general, internal audit work found there to be a sound control environment in place across the majority of review areas ... we generally found officers and staff to be well aware of the importance of effective control frameworks and compliance and also open to our suggestion for improvements or enhancements where needed. Management actions agreed as a result of each review and monitored to completion to ensure that the identified risks and issues are addressed'*.
23. The key observations noted by the auditors are detailed in SIAP's report. A management response to observations arising from For any reviews that concluded with a 'limited' or 'no' assurance opinion, a management response to the actions arising has been included for the Audit Committee's awareness within the relevant quarterly progress reports considered by the Committee; in this case the Q1 2022/23 progress report considered by the Committee regarding Contract Management, and the Q1 2023/24 report, also on the Committee's agenda for this meeting, regarding other relevant audits.
24. It should be noted that the review of Contract Management originated from the 2021/22 internal audit plan, but did not conclude in time to be reported in the 2021/22 annual report, and has therefore been included within the 2022/23 annual report and opinion.

Management Response

25. The management response should be read alongside these observations; to support this, copies of the management responses for audits concluding with a 'limited' or 'no' assurance opinion are included at Annex 2 to this report. Committee Members should note that these duplicate the management responses provided within the separate Q1 2023/24 report, also on the Committee's agenda for this meeting.

Options

26. The Committee has two options:
- Option 1: Note the annual report and opinion and make any observations to the Council's Chief Finance Officer.
- Option 2: Note the annual report and opinion and make no observations to the Council's Chief Finance Officer.

Legal Implications

27. There are no legal implications arising from this report.
28. If the internal audit process identifies any concerns regarding legal matters, these will be addressed through identified management actions.

Financial Implications

29. There are no financial implications arising from this report.
30. If the internal audit process identifies any concerns regarding financial matters, these will be addressed through identified management actions.

Equalities Implications

31. There are no equalities implications arising from this report.
32. If the internal audit process identifies any concerns regarding equalities matters, these will be addressed through identified management actions.

Communication Implications

33. There are no communications implications arising from this report.
34. If the internal audit process identifies any concerns regarding communications matters, these will be addressed through identified management actions.

Environmental Sustainability Implications

35. There are no environmental sustainability implications arising from this report.
36. If the internal audit process identifies any concerns regarding environmental sustainability matters, these will be addressed through identified management actions.

Risk Management Considerations

37. An effective internal audit function is an important part of effectively managing risk.
38. The Council's strategic and operational risk registers were utilised in the development of the annual internal audit plan.
39. There are no other risk management implications arising from this report.

Consultation

40. The internal audit reports have been considered by the Council's Corporate Governance Group as part of its governance role.

Policy Framework

41. Internal audit makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all Corporate Plan priority areas.

Background Powers

42. None

Annexes

Annex 1: 2022/23 internal audit annual report and opinion

Annex 2: Compiled management responses for internal audits concluding with 'limited' or 'no' assurance.