

SIGNED OFF BY	Head of Projects and Performance
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TO	Overview and Scrutiny Committee
DATE	Thursday, 19 March 2020

KEY DECISION REQUIRED	YES
WARDS AFFECTED	(All Wards);

SUBJECT	Internal Audit Plan 2020/21-2022/23 and Charter 2020/21
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RECOMMENDATIONS

- (i) That the Overview and Scrutiny Committee approve the internal audit plan for 2020/21-2022/23 as set out in annexe 1; and,
- (ii) That the Overview and Scrutiny Committee approve the internal audit Charter for 2020/21 as set out in annexe 2.

REASONS FOR RECOMMENDATIONS

The Council has a statutory obligation to undertake an adequate and effective internal audit function. The approval of the audit plan and Charter is integral to this.

EXECUTIVE SUMMARY

Under the Council's constitution the Overview and Scrutiny Committee fulfils the role of the Audit Committee and is responsible for agreeing and monitoring the delivery of the Council's internal audit plan and Charter.

The audit plan and Charter (attached as annexe 1 and 2 respectively) will provide independent and objective assurance that the Council's systems and processes are appropriate, operating effectively and provide sufficient control for the purposes of risk management, internal control and governance.

The 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), 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. Under Section 151 of the Local Government Act (1972), the Council's Chief Financial Officer holds the statutory responsibility for the overall financial administration of the Council's affairs and is therefore responsible for maintaining an adequate and effective internal audit function. The Head of Projects and Performance has day to day responsibility for managing the internal audit contract.

BACKGROUND

4. The Council's internal auditors are the Southern Internal Audit Partnership (SIAP).
5. The Partnership is hosted by Hampshire County Council and is comprised of a number of local authorities and other public sector organisations.
6. In 2018/19 the Council entered into a partnership agreement with SIAP for the provision of internal audit services and, in so doing, discharged this function as permitted under section 101 (5) of the Local Government Act (1972). The Council joined the Partnership as a Key Stakeholder Partner.
7. The financial year 2019/20 was the first year in which SIAP was the Council's internal auditors.
8. 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.
9. Under the Council's constitution the Overview and Scrutiny Committee fulfils the role of the Audit Committee. As part of this role – as set out under Part 3a of the Constitution – the Committee has responsibility for approving the Council's internal audit plan and Charter, amongst other key responsibilities.
10. The Committee is therefore receiving this report in its capacity as the Audit Committee which is distinct from the scrutiny function.
11. The role of scrutiny is to review Council policy and challenge whether the Executive has made the right decisions in delivering policy goals. The Audit Committee and function, however, is charged with providing assurance of the adequacy of the risk management framework and the associated control environment, as well as independent scrutiny of the Council's financial and non-financial performance insofar as it affects the Council's exposure to risk.
12. The Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance of the role of the Audit Committee in Local Government (2018) provides further background and context to this requirement.

KEY INFORMATION

Internal audit

13. A professional, independent and objective internal audit service is a key element of ensuring good corporate governance.
14. The PSIAS defines internal audit as 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'.
15. 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.
16. 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.

The internal audit plan and Charter

17. The PSIAS state that a risk-based internal audit plan should be established on an annual basis in order to determine the priorities of internal audit activity. The plan for 2020/21 through to 2022/23 is provided at annexe 1.
18. The audit plan provides the mechanism through which the Council's internal auditors are able to ensure the most appropriate use of resources. The eventual culmination of the work as detailed by the plan is a clear statement of assurance on risk management, internal control and governance arrangements, expressed in an annual opinion of the Chief Internal Auditor.
19. The Chief Internal Auditor holds overall responsibility for the delivery of the plan.
20. The audit plan has been developed in consultation with the Council's senior management and with due regard to the Council's strategies, objectives and risks. Past internal audit reports (from 2019/20 as well as from the tenure of the Council's past internal auditors) have similarly informed its development.
21. The plan is kept under regular review in order to ensure that it continues to remain relevant to the Council's risk profile. Any subsequent revisions to the plan are reported to the Committee through the quarterly progress reports.
22. The Charter – updated annually – formally defines the purpose, authority and responsibility of internal audit.
23. In approving the plan and Charter the Committee is confirming its agreement that these documents are sufficient to monitor the organisation's risk profile and provide assurance that the Council's risk management framework and controls are robust and fit for purpose.

OPTIONS

24. The Committee has two available options:

25. Option 1: approve the internal audit plan for 2020/21-2022/23 and Charter for 2020/21 as set out in annexe 1 and 2 respectively. This is the recommended option as it will allow the auditors to swiftly commence their work programme for 2020/21.
26. Option 2: defer approval. This is not the recommended option as it will cause delay and may prove injurious to SIAP's ability to deliver the 2020/21 plan to schedule.

LEGAL IMPLICATIONS

27. The adoption of the internal audit plan and Charter will fulfil the Council's statutory duty to maintain an independent and effective internal audit function.
28. An effective internal audit function supports good governance which, in turn, reduces the risk of the Council being subject to successful legal challenge.

FINANCIAL IMPLICATIONS

29. The cost of funding the Audit Plan is covered within the Council's base budget.
30. The cost of any additional work – including, for instance, ad-hoc consultancy – that is not provided for within the audit plan will be funded from the service area that requires the additional support.

EQUALITIES IMPLICATIONS

31. There are no equalities implications arising from this report.

COMMUNICATION IMPLICATIONS

32. There are no communications implications arising from this report.

RISK MANAGEMENT CONSIDERATIONS

33. An effective internal audit function is an important part of risk management.
34. The Council's strategic and operational risk registers have influenced the development of the audit plan.

OTHER IMPLICATIONS

35. There are no other implications arising from this report.

CONSULTATION

36. The plan and Charter have been developed alongside the Council's Corporate Governance Group, Heads of Service and Management Team with due regard to the Council's strategies, objectives and risks.

POLICY FRAMEWORK

37. 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 PAPERS
None