

REVIEW OF THE INTERNAL AUDIT SERVICE 2023/24

AGENDA ITEM No. 13

MEETING: POLICY AND RESOURCES COMMITTEE

DATE: 6TH MARCH 2024

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 2023/24 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 effectiveness of their overall 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 2023/24 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 and following the Durham County Council decision to cease provision of internal audit service to Town and Parish Councils, the Council's Internal Audit Service was undertaken this year by an independent self-employed Internal Auditor, providing 44 days of internal audit.
- 3.2 Based on the number of days available, an Annual Internal Audit Plan was developed, that would enable full assurance to be given on the internal control objective set out in the Annual Internal Audit Report within the Annual Governance and Accountability Return at the end of the financial year, along with the review of a number of other major systems and service areas in the financial year.
- 3.3 Moving forward a risk-based three-year Internal Audit Plan will be established, in conjunction with the Internal Auditor, to ensure that all key systems and processes are audited at least once over the three-year period.
- 3.4 A report along with the service level agreement for the new Internal Audit Service was presented to Policy and Resources Committee in September, which identified the scope of the Internal Audit which was to be undertaken. A copy of the report is attached.
- 3.5 The Internal Auditor is a competent person with the Association of Accounting Technicians (AAT) and Certificate in Local Council Administration (CiLCA) qualifications and has extensive experience in the Town and Parish Council and Local Government sector having worked in the sector for many years.
- 3.6 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.

- 3.7 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'*.
- 3.8 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.
- 3.9 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 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.
- 3.10 The Annual Internal Audit Plan is prepared on a risk-based approach and sets out the planned programme of internal audit work, highlighting the number of audit man days that have been allocated to each individual audit.
- 3.11 The Audit plan is forecast to achieve 44 audit days in 2023/24.
- 3.12 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.
- 3.13 Audit reports and action plans are agreed with Senior Management with progress in implementing any recommendations is recorded on a schedule and monitored by the Finance Manager and Internal Auditor.
- 3.14 Progress on the Internal Audit Plan, including the outcome of audits and recommendations, are reported to and considered by the Council's Audit, Risk and GDPR Sub Committee. The minutes of the Audit, Risk and GDPR Sub Committee are ratified by the Policy and Resources Committee.
- 3.15 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.

- 3.16 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.
- 3.17 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.
- 3.18 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.
- 3.19 This policy is regularly reviewed to ensure that it meets current requirements, and the Internal Auditor monitors compliance with its requirements.
- 3.20 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 are relevant to the size of the Council and the scope of its activities.
- 4.2 No significant internal control issues have been identified 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 for the 2023/24 financial year were 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, Biodiversity 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 for the 2023/24 financial year has been 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.