

**SHREWSBURY TOWN COUNCIL
FINANCE & GENERAL PURPOSES COMMITTEE
Monday 7th February 2022**

Officer: Andy Watkin – Head of Resources (RFO)

Effectiveness of Internal Audit

1 Purpose of Report

To appraise members on the following:

- 1.1 The Accounts and Audit (England) Regulations 2011 require there to be an annual review of the effectiveness of Internal Audit, the findings of which to be considered by a committee (the Finance and General Purposes Committee) of that Council.
- 1.2 This is not a requirement for town and parish councils but remains good practice and should be completed periodically no longer than three years and in the year of any change of internal auditor.
- 1.3 The process is also regarded as part of the wider annual review of the council's governance arrangements and production of the Annual Governance Statement.
- 1.4 The internal auditor has a different role to the external auditor who are appointed by an independent body and while there is overlap the focus is on governance and following correct procedures

2 Internal Audit

- 2.1 Regulation 6 of the Accounts and Audit (England) Regulations 2011 imposes a duty on local councils to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 2.2 Internal audit is a key component of the system of internal control. The purpose of internal audit is to review and report to the council whether its systems of financial and other internal controls over its activities and operating procedures are effective.
- 2.3 Internal audit testing of controls will be sufficient for the proper completion of the annual internal audit report (page 3 of the annual return). This will then provide an adequate level of assistance for the council to complete assertions 2, 6 and 7 in its annual governance statement (section 1 of the annual return).
- 2.4 The minimum approach to the testing of key internal controls are:
 - Proper book-keeping
 - Financial Regulations, Standing orders and payment controls

- Risk management
- Budgetary controls
- Income controls
- Petty cash procedure
- Payroll controls
- Asset control
- Bank reconciliation
- Year-end procedures

3 Review

3.1 Areas of the review should as a minimum cover the expected standard components below:

- The scope of internal audit
- Independence
- Competence
- Relationships
- Audit planning and reporting

3.2 The review is also primarily about effectiveness not process, so the focus should be on:

- Internal audit work is planned
- Understanding the whole organisation its needs and objectives
- Be seen as a catalyst for change
- Add value and assist the organisation in achieving its objectives
- Be Forward looking
- Be challenging
- Ensure the right resources are available

3.3 If the review identifies any areas for development or change in internal audit an action plan should be produced for the council to manage the remedial process. The action plan should set out the areas of improvement required, any proposed remedial actions and people responsible for delivering improvement, and the deadlines for completions of the actions.

3.4 The review is attached (10ii)

4 Action plan

4.1 No actions, consideration for future areas of plan to be amended following any change of direction after visioning exercise and MTFP.

5 Recommendations

5.1 There are no areas of concern with the current internal auditors and the report be accepted, additional audit reports per plan to be presented to F&GP

MEETING STANDARDS

| Expected standard | Evidence of achievement | Yes or No | Areas for development |
|----------------------------|--|-----------|---|
| 1. Scope of internal audit | <p>Scope of audit approved by Finance & General Purposes Committee on 8 April 2019</p> <p>Scope of audit work takes into account risk management processes and wider internal control - all necessary documents are submitted for audit</p> <p>Terms of reference define audit responsibilities in relation to fraud</p> | Yes | 5 year plan to focus on Council plans and robust procurement procedures |
| 2. Independence | <p>Internal audit has direct access to those charged with governance (see Financial Regulations). - Reports are submitted to the Councils Finance & General purposes Committee</p> <p>Reports are made in own name to management - Reports are submitted to the Councils Finance & General Purposes Committee</p> <p>Internal audit does not have any other role within the council.</p> | Yes | |
| 3. Competence | <p>There is no evidence of a failure to carry out internal audit work ethically, with integrity and objectivity.</p> <p>Undertakes similar work for other band C Councils, therefore is aware of the current financial requirements expanding firm employing former Audit Commission managers</p> <p>Is consultee with JPAG (Joint Practitioners Advisory Group) who issue the "The Practitioners Guide" and any amendments</p> | Yes | |
| 4. Relationships | <p>The responsible officers (Clerk and RFO) are consulted on the internal audit plan and on the scope of each audit (evidence is on audit files)</p> <p>Respective responsibilities for officers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters - within the Councils Risk assessment.</p> <p>The responsibilities of council members are understood; training of members is carried out as necessary.</p> | Yes | |

| | | |
|---------------------------------|---|-----|
| 5. Audit Planning and Reporting | The annual internal audit plan properly takes account of all the corporate risks Internal audit has reported in accordance with the plan to F&GP on completion of each interim and final review | Yes |
|---------------------------------|---|-----|

CHARACTERISTICS OF EFFECTIVENESS

| Characteristics of effectiveness | Evidence of achievement | Yes or No | Areas for development |
|--|---|-----------|------------------------------------|
| 1. Internal audit work is planned | Planned internal audit work is based on risk assessment and designed to meet the body's governance assurance needs | Yes | |
| 2. Understanding the whole organisation its needs and objectives | The annual plan demonstrates how audit work will provide assurance in relation to the body's annual governance statement | Yes | reviewed each year, linked to MTFP |
| 3. Be seen as a catalyst for change | Supportive role of audit for corporate developments such as corporate governance review, risk management and ethics. | Yes | |
| 4. Add value and assist in achieving its objectives | Demonstrated through positive management responses to recommendations and follow up action where called for. | Yes | |
| 5. Be forward looking | When identifying risks and in formulating the annual audit plan, changes on national agenda are considered. Internal audit maintains awareness of new developments in the services, risk management and corporate governance. | Yes | reviewed each year, linked to MTFP |
| 6. Be Challenging | Internal audit focuses on risks and encourages managers/members to develop their own responses to risks, rather than relying solely on audit recommendations. The aim of this is to encourage greater ownership of the control environment. | Yes | |
| 7. Ensure the right resources are available | Adequate resource is made available for internal audit to complete its work. Internal auditor understands the body and the legal and corporate framework in which it operates. | Yes | Physical visits after covid |