

## **EAST SURREY SHADOW AUTHORITY AUDIT & GOVERNANCE COMMITTEE**

**MEETING DATE: 2 November 2026**

**REPORT OF EXECUTIVE MEMBER: Andy Burton, Portfolio Holder for Finance & Resources**

**LEAD OFFICER: Nikki O'Connor, Interim Chief Finance Officer (s151) and Russell Banks, Chief Internal Auditor at Surrey County Council and part of Finance LGR Workstream**

**SUBJECT: Update on the provision of internal audit activities to East Surrey Council**

### **Purpose of the Report:**

This report provides the East Surrey Shadow Audit & Governance Committee with a brief introduction to the role and purpose of internal audit, the Committee's responsibilities with regard to internal audit and a high level overview of how it is proposed these arrangements will work for East Surrey Council from 1 April 2027.

The Committee are also asked to agree to the proposal to provide a detailed workshop/training session for the committee, ahead of Vesting Day, covering key aspects of internal audit work along with the Committee's responsibilities in this regard.

### **Recommendations:**

It is recommended that the Audit & Governance Committee resolves to:

1. Note the role, purpose and authority of both internal audit and the Audit & Governance Committee, as summarised within this report and the attached example Internal Audit Charter; and
2. Agree to a detailed workshop and training session on the above, to be delivered before the end of this calendar year.

### **Reason for Recommendations:**

Internal audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain an 'effective internal audit to evaluate the effectiveness of its risk management, control and governance processes'.

The Audit & Governance Committee oversees the work of internal audit on behalf of the Council and, in order to do so effectively, requires a sufficient understanding of both the function and its own specific responsibilities in this regard.

To support the Committee in this regard, it is proposed that a detailed briefing session be provided covering the following areas:

- Introduction to Internal Audit
- Approach to Internal Audit Work
- The Role of the Committee in Relation to Internal Audit
- Audit & Governance Committee Engagement and Reporting (for Internal Audit)

|                 |
|-----------------|
| <b>Summary:</b> |
|-----------------|

### **Role of Internal Audit**

1. Internal audit functions operate within the context of strict and comprehensive professional standards, namely Global Internal Audit Standards (GIAS), along with the specific requirements of the Local Government Application Note, which sits alongside the standards.
2. The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. The purpose statement included in the GIAS states “Internal auditing strengthens the organisation’s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight”.
3. Internal auditing enhances the organisation’s:
  - Successful achievement of its objectives.
  - Governance, risk management, and control processes.
  - Decision-making and oversight.
  - Reputation and credibility with its stakeholders.
  - Ability to serve the public interest.
4. The full role and scope of internal audit is commonly set out within an Internal Audit Charter, an example of which is attached as Appendix A for the committee’s reference. The example provided is based on a version adopted by a number of local authorities which formed part of the former Orbis Internal Audit Partnership and was developed in line with best practice and the requirements of GIAS. It is anticipated that a version specific to East Surrey Council will be presented to the Audit & Governance Committee for approval in advance of Vesting Day, alongside an Internal Audit Strategy and Annual Audit Plan for 2027/28.

### **East Surrey Council Internal Audit Arrangements**

5. In May 2026, a Terms of Reference for the Audit and Governance Committee was agreed which includes the following elements specific to its role with regard to internal audit:

- To consider the arrangements that need to be in place to secure adequate assurance across East Surrey Council's full range of operations and collaborations with other entities.
  - To approve the internal audit strategy and work plan for the East Surrey Council.
  - To review any internal audit reports relating to the Implementation Programme and monitor associated management actions.
6. In addition to these requirements, which are specific to the Shadow year, it is considered good practice for the committee to also receive a range of reports throughout the year, including regular summaries of all internal audit activities and findings, progress reports on the delivery of the internal audit plan, details of internal audit performance and an annual internal audit report. Currently these reports continue to be reported to existing council's Audit Committees, but from 1 April 2027 will transfer to the responsibility of the East Surrey Audit & Governance Committee.
7. Internal audit provides an essential role in helping the Audit and Governance Committee fulfil its responsibilities, vital to which is regular and open communication between the Chief Internal Auditor and the Committee. This is achieved not only through formal reporting but also through periodic briefings and updates, including directly with the Chair of the committee.
8. During 2027/28, internal audit services will be delivered to East Surrey Council as part of a hosted arrangement. The Internal Audit team will be employees of East Surrey Council but will provide services to both East Surrey Council and West Surrey Council. The core function is made of approximately 15 staff, who will transfer from Surrey County Council, supplemented with resources drawn from an external provider, Southern Internal Audit Partnership (SIAP). This arrangement will initially be for a 12 month period and exists because SIAP were the provider of internal audit services to a number of the district and borough councils across Surrey prior to Local Government Reorganisation, and whose contracts remain in place until 31 March 2028 (novated to East Surrey Council).

### **Internal Audit Delivery**

9. The total level of internal audit resource for East Surrey Council, expressed in terms of direct audit days, amounts to approximately 1,900 days (including schools). This level of resource is based on levels currently delivered within the district and borough councils in East Surrey, along with a proportion of Surrey County Council's internal audit service.
10. In order to help ensure this resource is used to best effect, a risk based audit plan is prepared each year, for Audit & Governance Committee approval, setting out all of the individual audit assignments the service intend to carry out for the year ahead. This plan is matched to the resources available (audit days) and is subject to ongoing monitoring and review throughout the year.
11. The purpose of the internal audit plan is to help ensure that resources are focussed on the most important areas, primarily identified on a risk basis, and

that the results of this work, delivered over the course of year, will enable the Chief Internal Auditor to provide an overall opinion on the Council's governance, risk management and internal control arrangements. This opinion is set out within an annual internal audit report and is used to directly inform the Council's Annual Governance Statement.

12. In addition to the annual report, quarterly progress reports will also be presented to the Committee, covering the key findings from all completed audits during the preceding period, as well as updates on general internal audit delivery, internal audit performance (including against an agreed set of key performance indicators) and management progress in addressing any identified weaknesses arising from internal audit work. This will be based on formal follow up audits and established action tracking arrangements.
13. Finally, in addition to audit and assurance activities, the Internal Audit Service for East Surrey Council will also be providing counter fraud services, in conjunction with existing borough and district council teams, covering both proactive fraud prevention work and reactive investigations into suspected fraud, corruption and other wrongdoing. The results of this activity will also be reported to the Committee on periodic basis.

|                      |
|----------------------|
| <b>Consultation:</b> |
|----------------------|

14. A hosted internal audit service, for a period of 12 months, was approved as part of service configuration decisions, by the Executive in September 2026. This proposal followed a number of informal member briefings, led by the D&LGR Implementation Team, on service configuration and hosted services. In October 2026, approval was given for the service to be hosted in East Surrey.

|                                          |
|------------------------------------------|
| <b>Risk Management and Implications:</b> |
|------------------------------------------|

15. Given there are currently a range of different delivery models (and providers) in place for the provision of internal audit activities across the existing council's in East Surrey, and that for many of these the external contracts do not expire until 31 March 2028, an interim hosted arrangement mitigates the risk that internal audit services will become confused, disjointed and uncoordinated from vesting day. Service continuity is essential at a time of such high risk. An interim hosted model will enable the utilisation of resources available from current external contractors, which will help ensure resilience whilst allowing time for further review of longer-term options.

|                                                    |
|----------------------------------------------------|
| <b>Financial and Value for Money Implications:</b> |
|----------------------------------------------------|

16. There are no direct financial implications as a result of the recommendations in this report.

17. The total cost of the hosted Internal Audit Service for 2027/28 will be shared across East and West Surrey Councils. The costs are contained within existing budgets held by the existing councils in Surrey and therefore no additional financial pressures are anticipated in 2027/28 as a result of the hosted arrangements.

|                                        |
|----------------------------------------|
| <b>Section 151 Officer Commentary:</b> |
|----------------------------------------|

18. East Surrey Council will operate in a very challenging financial environment, with significant budgetary pressures from increasing demand and costs of service delivery, coupled with limited financial resources and reducing government funding. East Surrey Council will be increasingly reliant on Council Tax as the primary source of income.
19. Decisions made by the sovereign councils in East Surrey and the East Surrey Shadow Authority will need to consider the ongoing financial impact and ensure that expenditure does not exceed the resources available. It is vital that significant importance is placed on effective financial management and medium-term financial sustainability to achieve a balanced budget position and protect service delivery.
20. There are no direct financial implications from the proposals set out in this report. As set out above, the cost of a hosted internal audit service, as agreed by Executives, is anticipated to be contained within existing budgets.

|                                                            |
|------------------------------------------------------------|
| <b>Legal Implications (Monitoring Officer Commentary):</b> |
|------------------------------------------------------------|

21. In accordance with the Accounts and Audit Regulations 2015, East Surrey Council must maintain adequate and effective internal audit of the Council's accounting records, control systems and financial transactions including any operations affecting the financial arrangements or the finances of the Council. That function is extensively the responsibility of an internal audit service which must comply with GIAS standards referred to above and other relevant Codes of Practice.
22. An authority can either delegate such functions to another authority under Section 101 of the Local Government Act 1972, and/or procure internal audit services from an external audit provider through the Council's procurement procedure rules.

|                                                                   |
|-------------------------------------------------------------------|
| <b>Workforce Implications (People/Human Resources Commentary)</b> |
|-------------------------------------------------------------------|

23. The proposed hosted arrangement will have direct workforce implications for the approximately 15 Internal Audit employees who are expected to transfer from Surrey County Council to East Surrey Council and provide services to both East and West Surrey Councils from 1 April 2027. The transfer will need to be managed in accordance with the relevant statutory transfer and consultation requirements, supported by timely and clear communication with affected employees and recognised trade unions. Appropriate induction,

management, wellbeing and change support should also be provided as the new operating arrangements are established.

24. Maintaining sufficient capacity, capability and professional independence will be essential to ensure continuity of this statutory service during the first year of the new Council. Workforce planning should therefore confirm that the combined in-house and external resource has the skills and resilience required to deliver the proposed audit plan and counter-fraud activity across both councils. Any workforce implications arising from the review of the longer-term delivery model beyond 2027/28 will need to be assessed and managed separately, with appropriate engagement and consultation. Subject to these arrangements, there are no further direct workforce implications arising from the recommendations in this report.

#### **Equality and Diversity:**

25. There are no direct equality and diversity implications of the recommendations in this report.

#### **Climate Change and Sustainability:**

26. There are no direct climate change and sustainability implications of the recommendations in this report.

#### **What Happens Next:**

27. Subject to the agreement to the recommendations in this report, a detailed workshop and training session will be provided for the Audit & Governance Committee before the end of this calendar year.
28. In addition, in advance of Vesting, an Internal Audit Strategy and Annual Audit Plan for 2027/28 will be prepared for Audit & Governance Committee approval, along with an Internal Audit Charter for East Surrey Council.

---

**Report Author:** Nikki O'Connor, Interim Chief Finance Officer (s151) and Russell Banks, Chief Internal Auditor at Surrey County Council and part of Finance LGR Workstream

#### **Annex:**

Appendix A – Example Internal Audit Charter

#### **Sources/background papers:**

None.

