

AUDIT & GOVERNANCE COMMITTEE  
24 March 2014

**2013/14 Review of the Effectiveness of the System of Internal Audit**

**SUMMARY AND PURPOSE:**

This report sets out the findings and recommendations from the 2013/14 review of the effectiveness of the system of internal audit in Surrey County Council. The agreed Terms of Reference for this review are attached at Annex A

**RECOMMENDATIONS:**

The Committee is asked to note the findings of this report and consider whether any further action is required.

**BACKGROUND:**

1. The Accounts and Audit Regulations require local authorities “*to conduct, at least once in each year, a review of the effectiveness of the system of internal audit.*” The Audit and Governance Committee, as the Committee charged with responsibility for Internal Audit, considers that it is best placed to sponsor such a review on behalf of Surrey County Council.
2. It was agreed by the Chairman of this Committee that the 2013/14 review should encompass the following activity:
  - Follow-up of action taken in response to the recommendations arising from the 2012/13 review
  - Completion of the Checklist for Assessing Conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note
  - Review of the level of Select Committee scrutiny of audits which have attracted an “Unsatisfactory” or “Major Improvement Needed” opinion and/or include high priority recommendations
  - Review of Management Action Plan (MAP) progress as reported to Audit and Governance Committee for evidence of appropriate senior officer/Cabinet member focus on red/amber rated actions

### **FOLLOW-UP OF 2012/13 REVIEW RECOMMENDATIONS:**

3. The 2012/13 Effectiveness Review presented to this Committee in March 2013 was completed by consultants from CIPFA and included 22 recommendations. In June 2013, the Chief Internal Auditor provided an update to this Committee on progress in implementing those recommendations. This showed six recommendations still to be completed.
4. An updated assessment of implementation of the recommendations arising from the 2012/13 Effectiveness Review is attached at ANNEX B. This shows all recommendations as "Green".
5. Notably, since the June 2013 update on progress, the whole team have undertaken formal training on risk based internal auditing; and, options around Internal Audit Opinions definitions have been explored.
6. Although the 2012/13 Effectiveness Review sought to ensure compliance with the PSIAS, it should be noted that the PSIAS Local Government Application Note and associated checklist which was subsequently published, has introduced a number of more detailed requirements.

### **PSIAS LOCAL GOVERNMENT APPLICATION NOTE CHECKLIST:**

7. The UK Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013, supplemented by a CIPFA Local Government Application Note which was published in April 2013. Compliance with the PSIAS is mandatory and the Chief Internal Auditor is expected to report on the level of conformance within her annual report. It should, however be noted that discussions with CIPFA suggest an acknowledgement that it may be a number of years before all Local Government Internal Audit services achieve full conformance with the PSIAS.
8. Instances of non-conformance with the PSIAS must be reported to the Audit and Governance Committee (the "Board" for PSIAS purposes) and any significant deviations must be considered for inclusion in the Annual Governance Statement.
9. Regardless of the outcome of any internal assessment of compliance with the PSIAS the Chief Internal Auditor is not permitted to state that the Council's Internal Audit service conforms to the PSIAS unless this view is supported by an External Assessment conducted by an "appropriately qualified" external assessor.
10. For the purposes of the 2013/14 Effectiveness Review an assessment against the Local Government Application Note checklist was completed by an officer from the Performance and Research team within the Policy and Performance Service. The completed checklist is 70 pages long and has been circulated to members of this Committee as background reading for this report.
11. The conclusions of this assessment are that the current Internal Audit operating arrangements substantially comply with the requirements and while there are a number of areas of non-compliance, the Chief Internal Auditor is of the opinion that none of these are significant enough to warrant inclusion in the Annual Governance Statement.
12. Given the explicit nature of some of the standards, the main issues that have come out of this review, are the need to:
  - amend where necessary, operational documentation ( such as the Internal Audit Charter) to ensure it references to and reflects the terminology of the new standards
  - develop a formal Quality Assurance and Improvement Programme
  - ensure written understandings exist for all work undertaken for outside parties

- put in place arrangements to involve the Chief Executive and Chairman of the Audit and Governance Committee in the Chief Internal Auditor's annual appraisal
  - conduct an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance
13. The PSIAS also include some requirements that do not sit naturally within usual Local Authority operational practices, for example the requirement for the Audit and Governance Committee to approve:
- the Internal Audit budget; and,
  - decisions relating to the appointment and removal of the Chief Internal Auditor
14. As a result of this assessment a number of recommendations (set out in ANNEX C) have been made to address instances of non-compliance with the PSIAS and the Chief Internal Auditor will provide an update on progress in implementing these recommendations in her Annual report to this Committee in May 2014.

#### **SELECT COMMITTEE REVIEW OF INTERNAL AUDIT REPORTS:**

15. Following a recommendation of the Audit and Governance Committee in December 2012 the Chairman of this Committee wrote to all Select Committee Chairmen in March 2013 recommending that:
- (a) A summary of all audit reports is considered by Corporate Overview & Scrutiny Committee (the current practice).
  - (b) Reports for Directorates other than Business Services and the Chief Executive's Office are reviewed by the relevant Select Committee
    - if the audit opinion is 'unsatisfactory' or 'major improvement needed' or
    - if a report is rated as 'some improvement needed' and includes recommendations rated as high priority (H).
16. The Chairman of the Council Overview and Scrutiny Committee agreed that the Performance and Finance Sub-Group should receive reports from the Chief Internal Auditor in respect of (a) above. In addition, at its meeting of 4 November 2013, the Performance and Finance Sub-Group agreed that if the opinion in an internal audit report is 'Major Improvement Needed' or Unsatisfactory, or if the report includes any high priority recommendations, the full audit report and MAP would be forwarded to all Members of the relevant Select Committee and the Chairman would decide appropriate timing for the scrutiny of the report. The Chief Internal Auditor has agreed a process with Democratic Services to ensure this happens
17. A table showing all audit reports issued since 1 April 2013, where the audit opinion is 'Unsatisfactory' or 'Major Improvement Needed' and/or includes recommendations rated as high priority, together with an indication as to whether it has been reviewed by the relevant Select Committee is attached at ANNEX D.

18. This suggests the following audits have not yet been discussed by the relevant Select Committee:

<b>Audit</b>	<b>Opinion</b>	<b>Number of High Priority Recs</b>	<b>Relevant Select Committee</b>
Highways Contract - Lot3	Some Improvement Needed	1	E&TSC
ICS ContrOCC	Some Improvement Needed	3	C&ESC
Direct Payments - Follow-up audit	Some Improvement Needed	2	ASC
Streetworks Function	Some Improvement Needed	3	E&TSC
Customer Services	Some Improvement Needed	1	ASC

Although Customer Services sits within Customers and Communities Directorate the specific High Priority recommendation for this audit relates to Adult Social Care. The Chief Internal Auditor understands it proposed that the High Priority recommendations relating to both the Customer Services audit and the Direct Payments audit will be addressed as part of the Strategic Director's update to the ASC Select Committee on 1 May 2014.

**SENIOR OFFICER/CABINET MEMBER AWARENESS OF AUDIT ACTIVITY:**

19. On a bi-annual basis the Chief Internal Auditor reports progress in implementing audit recommendations to this Committee. While generally this highlights pleasing progress, with most agreed actions assessed as "Green", there is some evidence that appropriate action is not always taken in a timely manner and in these cases the status of the agreed management action may be assessed as "Amber" or "Red".
20. It is reasonable to expect that an appropriate level of senior management and Cabinet Member awareness of issues raised, should ensure corrective actions are implemented in a timely manner. Therefore as part of this review, the views of senior officers (Heads of Service and above) and Cabinet Members were sought as to their level of involvement with matters related to Internal Audit.
21. Senior Managers were asked the following:
- Are you kept informed of Internal Audits that are taking place in your area so you have an opportunity to feed in any particular issues/concerns?
  - How do you monitor progress of implementation of management action plans agreed in response to audit recommendations?
  - If you are the named owner of an agreed Management Action Plan, do you inform Internal Audit if it is apparent that timescales are likely to be missed and why?
  - Are you satisfied with the current service/audit liaison arrangements? Do you have any suggestions for improvement?
22. Responses were received from Senior Officers from all Directorates. The responses from Senior Officers gave positive assurance that there is good awareness of audit activity taking place and discussion, typically at Senior Management Team meetings, on implementation of Management Action Plans. Audit/Service Liaison arrangements were also viewed positively.

23. Specific suggestions from services on possible areas to improve included the following:

- more audits of new ways of working
- more time for Heads of Service to brief their Portfolio holder and Strategic Director before Internal Audit reports are distributed
- better briefing of officers at the start of each audit on the approach to the audit so those officers understand their role and influence.

The Internal Audit Management team will consider all the suggestions for improvements to see how these can be implemented/addressed

24. Cabinet Members were asked the following:

- a) Are you regularly briefed on what Internal Audits are being planned in your area so you have an opportunity to feed in any particular issues/concerns?
- b) Do senior officers discuss the outcomes of completed audits with you on a regular basis?
- c) How do you gain assurance that appropriate management action is being taken in response to audit recommendations within the agreed timescales?

25. Responses were received from two Cabinet Members. One reported positively that they were properly informed and that Internal Audit provide a “highly effective service”. The other Cabinet Member however reported that they were not advised as to what Internal Audit reports are planned within their area; nor were outcomes of audits discussed with them or assurance provided that appropriate action has been taken in response to audit recommendations.

#### **CONCLUSIONS:**

26. The 2012/13 Effectiveness Review concluded that Internal Audit in the Council was well led and given a high priority by those charged with good governance. During 2013/14 additional steps have been taken to further raise the profile of Internal Audit work – notably through the new process for ensuring Select Committee review of Internal Audit reports which include High Priority recommendations; and, the inclusion of the Chief Internal on the Strategic Risk Forum.

27. The PSIAS Local Government Checklist introduced a number of new requirements, many of which have already been addressed. There are no significant areas of non-compliance with the PSIAS that would merit inclusion in the Annual Governance Statement

28. Senior Officer feedback on the level of focus given to audit activity is encouraging although there would appear to be a need to improve briefing of Cabinet Members.

#### **IMPLICATIONS:**

##### **Financial**

There are no direct financial implications arising from this report

##### **Equalities**

There are no direct equalities implications arising from this report

##### **Risk management**

An effective system of internal audit complements good risk management across the Council

**WHAT HAPPENS NEXT:**

The findings from this review will help inform the Council's 2013/14 Annual Governance Statement.

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**REPORT AUTHOR:** Sue Lewry-Jones, Chief Internal Auditor

**CONTACT DETAILS:** telephone: 020 8541 9190 e-mail: sue.lewry-jones@surreycc.gov.uk

**Sources/background papers:** Public Sector Internal Audit Standards and completed checklist