

**AUDIT & GOVERNANCE COMMITTEE**  
11 April 2016

**2015/16 Review of the Effectiveness of the System of Internal Audit**

**SUMMARY AND PURPOSE:**

This report sets out the findings and recommendations from the 2015/16 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 (England) 2015 removed the requirement that a review of the effectiveness of the Council's internal audit arrangements should be conducted at least annually. Internal Audit's Quality Assurance and Improvement Programme has been amended to reflect this change in legislation, although an annual review of the effectiveness of the system of internal audit - notably an assessment of compliance with the Public Sector Internal Audit Standards - has continued.
2. Following a comprehensive check against the PSIAS and the Local Government Application Note in 2013/14 a lighter touch review was undertaken in 2014/15. This approach has continued into 2015/16 and has focused on the controls in place to mitigate the following risks:
  - Internal Audit is not viewed as sufficiently independent of undue influences
  - Internal Audit resource may not be focussed on key areas of risk
  - The Internal Audit team may not be sufficiently resourced/skilled
  - Internal Audit work may not be to an acceptable level of quality
  - Management action in response to audit recommendations may not be timely/effective
  - Internal Audit may not have a sufficiently high profile within the organisation to be a force for change

A high level check of compliance against the PSIAS and the Local Government Application Note has been conducted by the Risk and Governance Manager.

## KEY FINDINGS:

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### *Mitigation of key risks*

3. There is evidence to show that appropriate controls were in place during 2015/16 to ensure an effective Internal Audit service was provided.
4. Internal Audit in Surrey County Council is independent of undue influences and has a high profile within the organisation. The Internal Audit team is sufficiently well resourced with highly skilled and experienced auditors and resource is properly focussed on key areas of risk. Appropriate controls are in place to ensure Internal Audit work is of high quality. Management action in response to audit recommendations is generally both effective and timely and the council's overview and scrutiny boards are effective in ensuring this.
5. The evidence underpinning the above conclusions is set out in Annex B

### *Compliance check against PSIAS*

6. The UK Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and are applicable to all internal audit service providers. Compliance with the PSIAS is mandatory and the Chief Internal Audit should report conformance in her annual report.
7. As part of the 2015/16 effectiveness review, a high level assessment against the PSIAS was completed by the Risk and Governance Manager. The conclusions of the assessment are that Internal Audit substantially complies with the requirements and there are no significant areas that warrant inclusion in the Annual Governance Statement.
8. In order to gain further verification of compliance with the standards, it is recommended that feedback from Internal Audit's key stakeholders is independently obtained as part of the 2016/17 effectiveness review.

### *Benchmarking*

9. During 2015, Internal Audit participated in a benchmarking exercise organised through the County Chief Auditor's Network. 20 Authorities (6 unitaries and 14 county councils) participated. The key findings are as follows:

#### Internal Audit Plan Days (2015/16)

|                        |   |       |
|------------------------|---|-------|
| Surrey County Council  | - | 2,069 |
| County Council Average | - | 1,938 |
| Highest Council        | - | 4,742 |
| Lowest Council*        | - | 687   |

#### Internal Audit Establishment (Full Time Equivalent)

|                       |   |       |
|-----------------------|---|-------|
| Surrey County Council | - | 12    |
| Average               | - | 13    |
| Highest Council       | - | 27.95 |
| Lowest Council*       | - | 1.6   |

(Note\* - likely to be a Unitary Council)

**FOLLOW-UP OF PREVIOUS REVIEW RECOMMENDATIONS:**

10. The 2014/15 Effectiveness Review did not include any recommendations for improvement, however it was noted in the report to this Committee in April 2015 that one recommendation from 2013/14 had not been implemented. This recommendation, which related to the need to implement the “Managed Print” facility to include the facility to use locked print functionality when printing confidential material, has now been implemented.

**CONCLUSIONS:**

- 11. Internal Audit in the Council is well led and given a high priority by those charged with good governance. During 2015/16 work has continued to maintain and further raise the profile of Internal Audit work through Internal Audit representation at key corporate meetings, notably the Statutory Responsibilities Network and Extended Leadership Team, as well as ongoing representation at the Continual Improvement and Productivity Network.
- 12. The ongoing use of seminars in 2015/16 has proven to be an opportunity to further improve the understanding of the role Internal Audit plays in driving improvement across services to improve outcomes for Surrey residents, and for raising awareness of particular emerging risks such as those around fraud.

**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 2015/16 Annual Governance Statement.

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**Sources/background papers:** Public Sector Internal Audit Standards and Internal Audit Quality Assurance and Improvement Programme.

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