

AUDIT & GOVERNANCE COMMITTEE
20 February 2017

2016/17 Review of the Effectiveness of the System of Internal Audit

SUMMARY AND PURPOSE:

This report sets out the findings and recommendations from the 2016/17 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 was 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 (PSIAS) - has continued.
2. This year's review has included a self assessment of compliance against the PSIAS as well as qualitative conversations with key stakeholders (both officers and members alike) regarding the effectiveness of Internal Audit within Surrey County Council.
3. The findings of the 2016/17 effectiveness review were reported at Statutory Responsibilities Network on 19 February 2017.

KEY FINDINGS:

Compliance check against PSIAS

4. The UK Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 (and revised in April 2016) and are applicable to all public sector internal audit service providers. Compliance with the PSIAS is mandatory and the Chief Internal Audit should report on the level of conformance in their annual report.
5. As part of the 2016/17 effectiveness review, a self assessment against the PSIAS was completed by the Chief Internal Auditor. The conclusions of the assessment are that

Internal Audit substantially complies with the requirements and there are no significant areas of non conformance that warrant inclusion in the Annual Governance Statement.

6. A small number of instances were noted where there was not strict compliance with the standards and/or where further action is required. These are detailed at Annex B.
7. This assessment against the PSIAS provides assurance that a suitably professional, independent and objective Internal Audit service was provided throughout 2016/17.
8. In conducting the assessment against the PSIAS it is apparent that Internal Audit has performed particularly well in terms of ensuring appropriate anti-fraud arrangements are in place. One member of the team is an accredited counter fraud specialist and during 2016/17 an OrbisIA Fraud workstream has been established which has encouraged greater sharing of knowledge of fraud risks across Orbis partners.

Stakeholder Feedback

9. Qualitative conversations were held with a number of key stakeholders including:
 - The Leader of the Council
 - The Cabinet Member for Business Services and Resident Experience
 - Chairman Council Overview Board
 - Chief Executive
 - Deputy Chief Executive and Strategic Director for Children, Schools and Families
 - Strategic Director for Adult Social Care and Public Health
 - Chief Finance Officer
 - Monitoring Officer
 - Risk and Governance Manager

10. From the above conversations it is apparent that the Internal Audit service within Surrey County Council is highly valued. Comments included:

“first class, really helpful and really useful”

“incredibly useful”

“very systematic and very thorough....high standards across the group”

“bring an objective “external” view of the area being looked at with a person with expertise following a clear methodology”

“all Internal Audit Reviews have had the right impact and the audit process itself has been reasonable”

11. The aspects of Internal Audit work that were particularly valued were as follows:

- Internal Audit activity is linked to the organisation’s priorities to encourage improvement
- Assurance provided on the internal control environment (especially for key financial systems)
- Independent view provided by Internal Audit
- High quality of Internal Audit staff and audit reports
- Robust approach taken and a “tell it as it is” style of reporting
- Follow-up of agreed management action plans through the Audit & Governance Committee and Scrutiny Boards provides appropriate level of governance
- Audit representation on key governance forums such as Investment Panel and Strategic Risk Forum

- Services now understand how they can work with Internal Audit to ensure improvement in their area
- Involvement in investigative work as requested on an adhoc basis
- Raising fraud awareness and providing support where fraud is suspected
- The flexible approach taken in scoping and reporting audit work in some of the more sensitive areas

12. The key messages/challenges for further consideration were as follows:

- Need to ensure key officers – notably the Chief Internal Auditor, the Monitoring Officer and the Chief Finance Officer – continue to have regular opportunities to discuss governance concerns in a safe environment
- Need for the audit plan to include sufficient contingency to allow auditors to have the flexibility to react as circumstances require and follow their instincts
- Only conduct audit reviews where it is clear they will add value
- There is an opportunity to build on the link between risk registers and the work of Internal Audit
- Less emphasis on compliance auditing and more on improvement/value for money
- Audit activity must be focussed on the things that matter to the council and its residents
- The output from an audit is only as good as its input so it is essential that auditees have the time to feed into the process
- Relationships are key, and face to face meetings with auditees are important
- Auditees can take audit findings quite personally and react defensively
- If audit activity is to have the right impact, the timing of the review is crucial

Orbis – Internal Audit

13. Some specific feedback was provided in relation to Internal Audit as part of the Orbis Partnership relating to the following areas:

- Internal Audit within Finance – From 1 April 2017, the Internal Audit team will no longer be part of the Strategy and Performance Service, but will become part of Orbis Finance. While most key stakeholders did not express a view on this, one did raise some concerns over this move.
- Role of Chief Internal Auditor – There will be changes to the Finance Leadership Team, as a result of the move towards integration under Orbis, and this will impact on the role of the Chief Internal Auditor. Key stakeholder feedback emphasised the need for the Chief Internal Auditor to continue to have direct access to the Chief Executive and Leader of the Council.
- Management Action Plans – the OrbisIA team are currently piloting a new format Management Action Plan. This new approach will see a move away from formal audit recommendations, with the onus on the service to suggest what actions they intend to take to address audit findings. Key stakeholders were supportive of this approach which encourages greater ownership of management actions.
- Sharing Best Practice and Expertise – Stakeholders recognised the opportunities provided through Orbis for better sharing of best practice and audit expertise.

KEY ACTIONS IN REPSONSE TO FINDINGS:

14. The following actions will be taken to address the findings from this review:

- Complete the actions identified at Annex B in relation to the PSIAS
- The 2017/18 audit planning process will take a risk based approach to ensure audit activity is focussed on what matters to the organisation
- On-going service liaison and audit management review will ensure audits included in the plan remain relevant or are cancelled if this is no longer the case
- Service liaison meetings to be used to ensure the audit activity takes place at a time which ensures the audit can have an impact and effect improvement
- Service management to ensure the audit process is supported through timely provision of information, access to staff etc
- The Risk and Governance Manager to be invited to an Internal Audit team meeting to discuss the audit plan for 2017/18 with a view to discussing opportunities to build on the link between risk registers and audit activity
- Key findings and actions arising from this review to be discussed at an Internal Audit team meeting

FOLLOW-UP OF PREVIOUS REVIEW RECOMMENDATIONS:

15. The 2015/16 Effectiveness Review did not include any recommendations for improvement.

CONCLUSIONS:

16. Internal Audit in the Council continues to be well regarded and given a high priority by those charged with good governance.
17. During 2016/17 the Surrey County Council Internal Audit team has worked closely with the Internal Audit Teams from East Sussex County Council and Brighton and Hove City Council to share best practice and align working processes. This work will continue through 2017/18 as OrbisIA moves towards a fully integrated team by March 2018.

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 2016/17 Annual Governance Statement.

An update on progress in implementing the follow-up actions arising from this review will be included in the Internal Audit Annual Report which will be presented to the Audit and Governance Committee on 27 June 2017.

The 2017/18 review of the effectiveness of Internal Audit will include an external assessment of compliance with the PSIAS

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

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