

**AUDIT & GOVERNANCE COMMITTEE**  
**18 March 2013**

**Internal Audit Plan 2013/14**

**SUMMARY AND PURPOSE:**

1. The purpose of this report is to present the Annual Internal Audit Plan for 2013/14 to the Committee.
2. Under-pinning the work of the Internal Audit team in delivering the Annual Internal Audit Plan are the key principles and objectives as set out in the Internal Audit Charter and Strategy. These are presented alongside the Annual Internal Audit Plan for 2013/14 as good practice dictates that these are updated and reviewed on an annual basis.
3. Also included in this report is the updated Internal Audit Reporting and Escalation Policy.

**RECOMMENDATIONS:**

4. Members are asked to consider the contents of this report and annexes, and to approve the following:
  - (i) Internal Audit Charter (Annex A)
  - (ii) The Internal Audit Strategy (Annex B)
  - (iii) The Internal Audit Reporting and Escalation Policy (Annex C)
  - (iv) 2013/14 Internal Audit Plan (Annex D)

**BACKGROUND:**

5. The statutory basis for Internal Audit in local government is provided in the Accounts and Audit Regulations 2011 - which require a local authority to "*undertake an adequate and effective internal audit of its accounting records and of its system of internal control*".
6. The Accounts and Audit Regulations contain the expectation that Internal Audit will operate within acknowledged professional standards. The Audit and Governance Committee has adopted the Public Sector Internal Audit Standards (PSIAS), which come into effect on 1 April 2013, as the basis for Internal Audit in Surrey County Council.
7. **Internal Audit Charter (Annex A)**  
The PSIAS require Internal Audit to have a Charter that has been formally approved and is regularly reviewed. The Charter attached at Annex A has been developed in line with the PSIAS and replaces the Internal Audit Terms of Reference previously approved by this Committee. In response to the recommendations contained within the 2012/13 Review of the Effectiveness of the System of Internal Audit the Charter includes the following:
  - (i) An explicit statement explaining that the scope of Internal Audit activity includes all the operations of the Council

- (ii) Reference to the resources available to Internal Audit (including access to hardware, software, information and training)
- (iii) An explicit statement confirming the requirement that Internal Audit activity is free from interference in determining the scope of activity, performing work and communicating results

**8. Internal Audit Strategy (Annex B)**

Under the PSIAS there is no longer a requirement to produce an Internal Audit Strategy. However the Chief Internal Auditor is of the opinion that this is a useful document that links the work of Internal Audit to the council's vision to be the most effective council in England by 2017. Through approving the Internal Audit Strategy for 2013-2017 alongside the Internal Audit Plan for 2013/14, the link between the work of Internal Audit and the high level strategic vision of the council is apparent.

There have been no substantial changes to the Strategy previously approved by this Committee in April 2012.

**9. Internal Audit Reporting and Escalation Policy (Annex C)**

The Internal Audit Reporting and Escalation Policy has been updated to reflect the following:

- (i) the ability to view all Internal Audit reports on the council's intranet
- (ii) the intention to alert the Head of Communications to Internal Audit reports attracting an "Unsatisfactory" or "Major Improvement Needed" audit opinion

**10. 2013/14 Internal Audit Plan (Annex D)**

The Internal Audit Plan for 2013/14, which is a risk based programme of work, is set out at Annex D. There are a number of core elements to the Internal Audit Plan which are likely to feature each year. Certain audit activities are mandatory eg

- (i) Reviewing corporate governance arrangements to inform the Annual Governance Statement
- (ii) Grant Certification
- (iii) Irregularity contingency
- (iv) Participation in the National Fraud Initiative (NFI) as coordinated by the Audit Commission

In addition to these mandatory elements, Internal Audit also carries out testing on an annual basis, of all the Council's key financial systems. Previously this work had included specific audit testing defined by the External Auditor. Under the new external audit arrangements there is no requirement for Internal Audit to conduct such tests as the External Auditor does not place reliance on the work of Internal Audit. The S151 Officer has however confirmed that, due to the significance of these systems – which essentially underpin most of the council's transactions – they should continue to be reviewed on an annual basis by Internal Audit unless specifically agreed otherwise.

Once these core elements of the Plan and follow up reviews are accounted for, the remaining audits shown in the proposed Plan have been included based on a risk priority which has been assessed following:

- (i) Consultation with:
  - a. Heads of Service and other senior management
  - b. Members of the Cabinet including the Leader of the Council
  - c. Members of the Audit and Governance Committee
  - d. Head of Policy and Performance

- e. S151 Officer
  - f. The Risk and Governance Manager
  - g. External Auditor
- (ii) Consideration of risk registers
  - (iii) Areas of concern emerging from liaison with other Local Authority Internal Audit Sections

The draft Plan was also presented at a meeting of the Quality Board on 25 February 2013.

Members will note that the Plan includes a number of days to support the council's work on Innovation (included in the Cabinet forward plan for 26 March 2013). It will also be noted that the number of days set aside for Irregularity and Special Investigation including Fraud Prevention has increased to 345 days from 301 days in 2012/13. This reflects the intention to develop a programme of data matching and interrogation which will form a key part of our counter fraud work as well inform the audit work for a number of specific audits included in the Plan.

The Chief Internal Auditor is confident that the draft Internal Audit Plan at Annex D provides comprehensive coverage across the council's activities and addresses key areas of risk. The Internal Audit team is sufficiently resourced to deliver this programme of work which will enable the Chief Internal Auditor to provide an opinion on the adequacy of the Council's system of internal control for 2013/14.

<b>WHAT HAPPENS NEXT:</b>
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- 11. The Internal Audit team will deliver the 2013/14 Internal Audit Plan and Internal Audit reports will be produced and distributed in line with the Reporting and Escalation Policy.
- 12. Completed audit reports will continue to be presented to the Committee throughout the year and an update on performance against the 2013/13 Plan will be reported to the Committee in December 2013.

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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](mailto:sue.lewry-jones@surreycc.gov.uk),

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