

# STATES OF JERSEY



## **INTERNAL AUDIT: FOLLOWING UP THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL (P.A.C.3/2014) – RESPONSE OF DEPARTMENTS**

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**Presented to the States on 5th November 2014  
by the Minister for Treasury and Resources**

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**STATES GREFFE**

**INTERNAL AUDIT: FOLLOWING UP THE REPORT OF THE  
COMPTROLLER AND AUDITOR GENERAL (P.A.C.3/2014) –  
RESPONSE OF DEPARTMENTS**

**Departmental Response to:** P.A.C.3/2014

**Response required by:** 5th November 2014

**Review title:** Internal Audit: Following Up the Report of the  
Comptroller and Auditor General

**PUBLIC ACCOUNTS COMMITTEE INTRODUCTION**

The 4 recommendations made are accepted, and Internal Audit note that the Public Accounts Committee has appended the Chief Internal Auditor's detailed response to the Comptroller and Auditor General's report on the Internal Audit function, setting out the actions in hand to address the Comptroller and Auditor General's findings. The Comptroller and Auditor General's report was welcomed by Internal Audit, so further improvements could be made in relation to the implementation programme of Public Sector Internal Auditing Standards (PSIAS). An update will be provided to the Comptroller and Auditor General regarding the commitments made setting out the actions in hand to address the Comptroller and Auditor General's findings in 2015.

**RECOMMENDATIONS**

	<b>Recommendations</b>	<b>To</b>	<b>Accept/ Reject</b>	<b>Comments</b>	<b>Target date of action/ completion</b>
1	The Chief Executive should, by the end of February 2015, submit a report to the PAC explaining how the Corporate Management Board has prioritised the achievement of a robust corporate risk management framework.	T&R	Accept	The Chief Executive will provide a report to the Public Accounts Committee as requested.  The Audit Committee have been provided with a quarterly update as to the progress of the Risk Management Project. The final Risk Management Project Report will be presented to the Corporate Management Board in December 2014, and to both the Council of Ministers and the Audit Committee in January 2015.	End of February 2015
2	The Chief Internal Auditor must apply a fully risk-based approach to the development of the Internal Audit Plan 2015, as per the commitment made in the updated Internal Audit	T&R	Accept	Although the 2014 Internal Audit plan was prepared on a risk basis, the Audit Plan was presented in a strategic format rather than a risk-based format. Internal Audit agrees with both the Comptroller and Auditor General and the Public Accounts Committee with regard to this recommendation.  Internal Audit has already documented a	End of December 2014

	<b>Recommendations</b>	<b>To</b>	<b>Accept/ Reject</b>	<b>Comments</b>	<b>Target date of action/ completion</b>
	Charter.			planning methodology in the Internal Audit manual that reflects the recommendations made by the Comptroller and Auditor General, and is following this methodology for the preparation of the 2015 Internal Audit Plan. The draft 2015 Audit Plan will be presented to the Treasurer, Chief Executive and Audit Committee for approval in December 2014, as required under the Audit Committee Terms of Reference. This will include detail of the planning process and the links to both risks (Recommendation 6 in the C&AG report) and the requirements of Article 36 of the Public Finances (Jersey) Law 2005 (Recommendation 11 of the C&AG report).	
3	The Chief Minister and the Chief Executive should, within 6 months, give serious consideration to the matter of whether the Chief Internal Auditor should continue to report to the Treasurer of the States and, if deemed appropriate, lodge 'au Greffe' a suitable amendment to the Public Finances (Jersey) Law 2005	CMD	Accept	The Chief Minister and Chief Executive will review the reporting lines of the Chief Internal Auditor as recommended, to ensure that appropriate reporting lines are established for the Chief Internal Auditor. The outcome of the review will provide the level of independence required to ensure that the Chief Internal Auditor can fulfil the role covering all aspects of the States of Jersey Internal Audit function without the potential of conflict arising.  In the intervening period, the Chief Internal Auditor currently has a formal dual reporting line to both the Chief Executive and Treasurer; in addition to continuing to have an independent reporting line to the Chairman of the Audit Committee. This is to both promote and protect independence.	End of March 2015
4	The Chief Executive, the Treasurer of the States and the Chief Internal Auditor should, within the next 3 months, revisit the definition of the Board and Senior Management Team in the Internal	CMD/ T&R	Accept	PSIAS include a specific requirement that the Internal Audit Charter and Audit Committee Terms of Reference refer specifically to the 'board' and 'senior management team'; and define the relationship with Internal Audit with both the 'board' and 'senior management team'. Appendix I reflects the current governance structure of the States of Jersey in comparison to the UK. The definition as defined by PSAIS and role of the UK	End of December 2014

	<b>Recommendations</b>	<b>To</b>	<b>Accept/ Reject</b>	<b>Comments</b>	<b>Target date of action/ completion</b>
	<p>Audit Charter to ensure that they adequately reflect the role and accountability of Internal Audit in the context of the complex governance arrangements of the States.</p>			<p>equivalent ‘board’ and ‘senior management team’ cannot in its’ entirety be reflected in the current States of Jersey governance structure, however Internal Audit agree with Public Accounts Committee that the roles need to be clearly defined.</p> <p>In response to Recommendation 2 in the Comptroller and Auditor General’s report on Internal Audit, the Chief Internal Auditor has already reviewed and updated the Internal Audit Charter and Audit Committee Terms of Reference to ensure that the definitions of the ‘board’ and ‘senior management team’ reflected the current governance arrangements of the States of Jersey. Both updated documents were presented to the Audit Committee on 12th May 2014.</p> <p>The current structure in relation to the role and reporting structure of the Audit Committee shall be reviewed and, if changes are made, the Internal Audit Charter shall be updated to reflect the definitions of “board” and “senior management team” if appropriate.</p> <p>In addition, the Audit Committee considered its Terms of Reference at a workshop facilitated by the PwC (external auditors) on 14th July 2014. The Audit Committee Terms of Reference reflecting the outcome of the workshop were presented to the Audit Committee on 13th October 2014, and comments have been received by the Audit Committee, and these will be reflected in the Audit Committee Terms of Reference which will be presented in the Audit Committee meeting (December 2014) for approval.</p>	

**ADDITIONAL RECOMMENDATION IN MAIN REPORT**

	<b>Recommendations</b>	<b>To</b>	<b>Accept/ Reject</b>	<b>Comments</b>	<b>Target date of action/ completion</b>
	Paragraph 3.5 of the report recommends that the definition of the role of the Public Accounts Committee within the Audit Charter should refer to Standing Order 132(1)(c), which allows the Public Accounts Committee to initiate reviews on topics other than those on which the Comptroller and Auditor General has reported.	T&R	Accept	The Internal Audit Charter is presented and approved by the Audit Committee annually as required in the Audit Committee's Terms of Reference.  It is important that the Internal Audit Charter defines the role with respect to Internal Audit relationships, including those with the Audit Committee, Public Accounts Committee and Scrutiny. In addition to defining the relationship between Internal Audit and the Public Accounts Committee, the Internal Audit Charter will be updated to incorporate Standing Order 132(1)(c).	End of December 2014

**CONCLUSION**

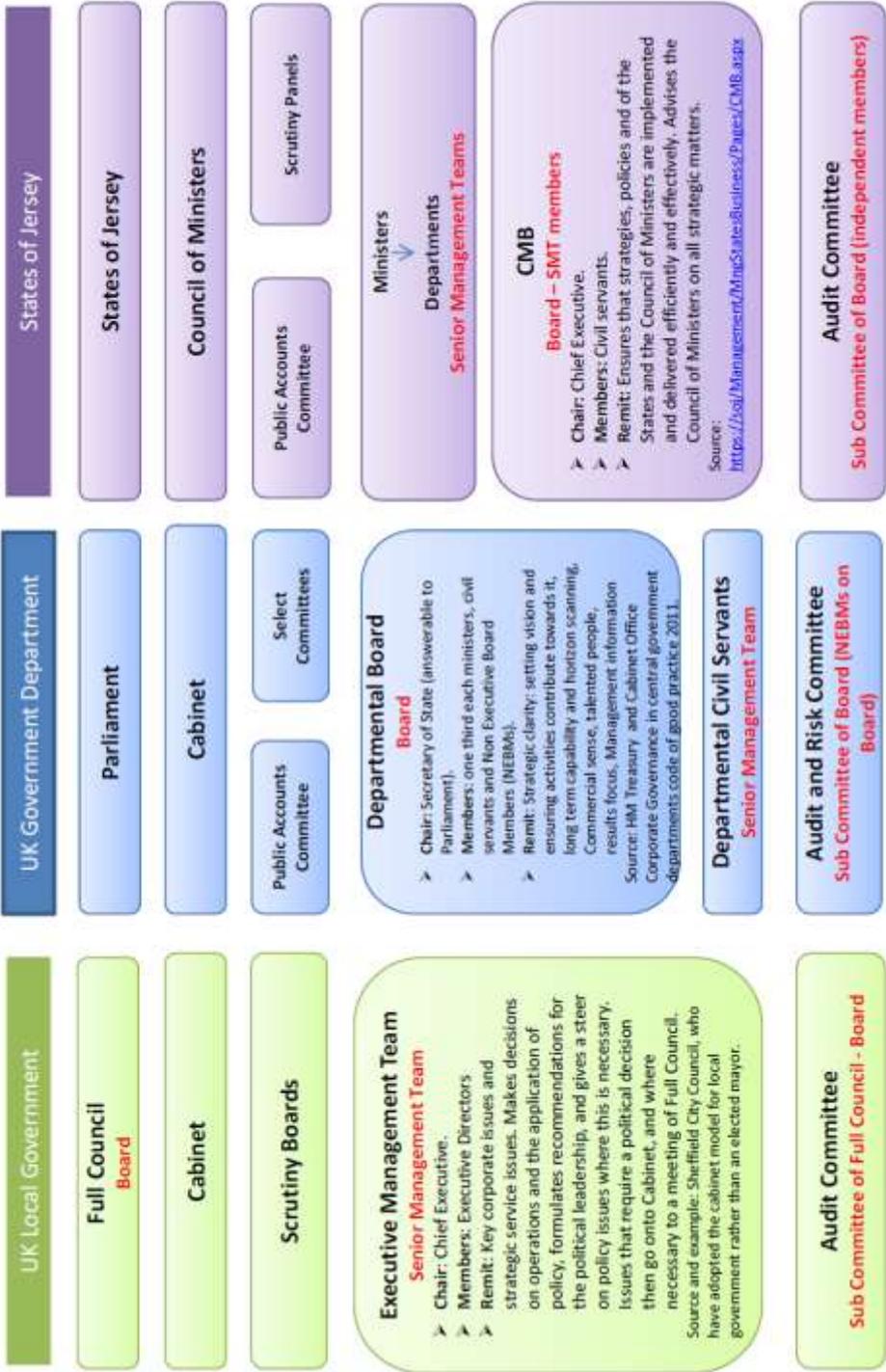
The continued interest and input of both the Comptroller and Auditor General and the Public Accounts Committee is always welcomed. We thank both the Comptroller and Auditor General and the Public Accounts Committee for their recommendations as an opportunity to further strengthen the Internal Audit function.

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**Re-issue Note**

This report is re-issued because the original version sent to the States Greffe inadvertently omitted the Appendix.

Governance: Comparison to UK Central and Local Government



## Governance: Comparison to UK Central and Local Government: Audit Committees

### UK Local Government

#### Audit Committee

- Chair: Elected member.
- Members: Elected members (political representation in same proportion as the full Council) plus independent co-opted non voting members.
- Remit: Oversees and assesses the Council's risk management, control and corporate governance arrangements and advises the Council on the adequacy and effectiveness of these arrangements including internal audit. It also has responsibility for the statutory financial reporting process through approval of the Statement of Accounts (delegated from Full Council).
- Meetings: meetings are open to the public and press except for items considered confidential or exempt under Schedule 12A of the Local Government Act 1972.
- Papers: published on Council website except for confidential or exempt items

Source for example: Sheffield City Council  
<http://sheffielddemocracy.moderngov.co.uk/imaging/committeesDetails.aspx?ID=143>

### UK Government Department

#### Audit and Risk Committee

- Chair: Non Executive Board Member (NEBM)
- Members: NEBMs from the Board (knowledge of the business of the department). No ministers or MPs.
- Remit:
  - ❖ Support the Board and Accounting Officer by reviewing the comprehensiveness of assurances on governance, risk management, the control environment, and the integrity of the financial statements and the annual report; and
  - ❖ Audit Committee terms of reference and should encompass all the assurance needs of the Board and Accounting Officer, in particular engagement with the work of Internal Audit, risk management, the External Auditor and financial management and reporting issues.
- Meetings: held privately.
- Papers: not published though subject to FoI / relevant exemptions.

Source: HM Treasury and Cabinet Office Corporate Governance in central government departments code of good practice 2011 and HM Treasury Audit and Risk Assurance Committee Handbook.

### States of Jersey

#### Audit Committee

- Chair: Independent member.
- Members: Independent members. One CMB member (Greffe). No States Members.
- Remit:
  - ❖ Advice and support to the Treasurer, Chief Executive and CMB to maintain an effective internal control and assurance framework;
  - ❖ Consider and discuss the International Standards of Auditing, ISA 260 Report and matters relating to the financial statements and to advise the Minister as requested, and critically review the States of Jersey Governance Statement;
  - ❖ Receive and comment on the Internal Audit Plan, the performance of the Internal Audit Plan and the findings of Internal Audit work including management responses to the findings and recommendations; and
  - ❖ Provide challenge on the States of Jersey risk management framework
- Meetings: held privately.
- Papers: not published.

Source: Draft Audit Committee Terms of Reference to Audit Committee 13 October 2014

## Governance: Comparison to UK Local and Central Government: Scrutiny and PAC roles

### UK Local Government

**No direct equivalent to the Public Accounts Committee.**  
Depending on the governance model adopted (cabines, elected mayor etc.) local authorities will use other means for example scrutiny boards to consider value for money. For example in Sheffield City Council the Overview and Management Scrutiny Committee scrutinises the use of Council resources. The Committee is comprised of elected members in proportion to the political composition of Full Council. Meetings are public.  
For example see <http://the.sheffielddemocracy.moderngov.co.uk/mgac/CommitteeDetails.aspx?ID=139>

**Scrutiny Boards**  
Depending on the governance model adopted local authorities will have scrutiny boards  
For example Sheffield City Council has four Scrutiny and Policy Development Boards, whose work programme is overseen by the Overview and Management Scrutiny Committee.  
For example see <http://the.sheffielddemocracy.moderngov.co.uk/mgac/CommitteeDetails.aspx?ID=139>

### UK Government Department

**Public Accounts Committee**  
Membership: cross party group of MPs.  
Role: The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted to Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the Committee may think fit" (Standing Order No 148). The Committee does not consider the formulation or merits of policy (which fall within the scope of departmental select committees); rather it focuses on value-for-money criteria which are based on economy, effectiveness and efficiency.  
Proceedings: hearings and reports are public.  
Source: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/>

**Select Committees**  
Membership: cross party groups of MPs or peers.  
Role: Set up by either House, usually for a whole Parliament, to look at particular subjects. In the Commons the select committees examine the expenditure, administration and policy of the main government departments and associated public bodies.  
Proceedings: Hearings are open to the public and press and reports are published.  
Source: <http://www.parliament.uk/search/result/?q=Select+committees>

### States of Jersey

**Public Accounts Committee**  
Membership: States Members who are not ministers or assistant ministers.  
Role: receive reports from the Comptroller and Auditor General and to report to the States upon any significant issues arising. Also assesses whether public funds have been applied for the purpose intended.  
Proceedings: hearings are open to the public and press and reports are published  
Source: <http://www.scrutiny.gov.je/panels/pac/Pages/default.aspx>

**Scrutiny Panels**  
Membership: States Members who are not ministers or assistant ministers.  
Role: independent and objective examinations of States policies and public services using evidence based inquiries, reports, recommendations or changes to policy.  
Proceedings: hearings are open to the public and press and reports are published.  
Source: <http://www.scrutiny.gov.je/Pages/default.aspx>