

Division(s): N/A

AUDIT COMMITTEE – 8 May 2012

REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2011/12

Report by the Monitoring Officer

INTRODUCTION

1. In January 2012, the Audit Committee agreed the process for undertaking the annual review of the Effectiveness of the System of Internal Audit, and requested that the Monitoring Officer undertake that review. The annual review is a requirement under the Accounts and Audit (England) Regulations 2011.
2. This report outlines the methodology used, and the overall findings and conclusions.

METHODOLOGY

3. The review has been conducted primarily as a desk top exercise with the collation of evidence from the Chief Internal Auditor (CIA); by reference to Committee reports on the Councils intranet site from both Internal and External Audit; by reference to progress reports on Internal Audit presented to the Audit Working Group (attended by the Monitoring Officer); and by canvassing the views of the extended County Council Management Team by way of a questionnaire.

FINDINGS

4. In 2011/12 the Internal Audit management team has remained unchanged. The CIA continues to share his time between Oxfordshire County Council and Buckinghamshire County Council, and from July the collaboration extended to include 'Audit Manager' days to Buckinghamshire. The collaboration will be extended further in 2012/13 as the team is currently out to recruit to four posts that will work across both County Councils and their external clients.
5. During 2011/12 there has been higher than expected turnover of staff that has impacted on the planned audit activity and on the overall performance in terms of output measures, but not, it would appear, the overall quality of work. In accordance with the Internal Audit Strategy, the in house team has operated in conjunction with an external service provider, Deloitte, to deliver the Internal Audit Service. The contract with Deloitte proved essential following staff turnover, as it ensured resources were available to deliver the planned activity minimum

disruption; however, working with an external provider has also caused difficulty in service delivery and these difficulties are evident in the significant reduction in performance with regards to timeliness of output. The CIA has reported that a benefit of working with Deloitte was expected to be creating some capacity at Audit Manager level, but this has not been achieved as both the in house Audit Managers have been required to provide more support than expected on the outsourced audits.

6. It is essential that the Internal Audit Team has good engagement with its clients, both at an operational level and at a Senior Management / Member level. It is clear that this is being achieved. The CIA has good engagement with Directors, and Audit Managers regularly attend Directorate Leadership Teams and meet with senior managers to understand emerging issues. The Monitoring Officer, S151 Officer / Deputy S151 Officer and the CIA continue to work closely on governance matters. The CIA is also a member of the Corporate Governance Assurance Group. Maintaining these relationships is essential to ensure that the work of Internal Audit remains focussed on the key risks, and that assurance is being targeted as required.
 7. It is noted that the Internal Audit Team are seeking to recruit to four posts and become predominantly an in house service once again. Whilst there has been some success working with Deloitte, there are advantages of having an in house team that understands the culture of the organisation, and have more breadth of local knowledge of the strategic issue. The Audit Management Team will need to ensure new staff are well inducted, and their output closely monitored to ensure that the high standards are maintained, and investment in training, particularly in the area of contract audit will be essential if reliance on outsourcing is to be reduced..
 8. The two areas of internal audit work that have been outsourced, Schools Audits and IT Audit have been successful, with delivery of both plans achieved to a good standard, and with both receiving very positive feedback in the post audit questionnaires.
 9. One area that has been under resourced is 2011/12 is counter-fraud. As a result of staff turnover, resources were prioritised to general audit assignments. Nationally there are indicators that the risk of fraud across the public sector is increasing, and in particular low value fraud resulting from poor internal controls and management practices. The audit reports presented to the Audit Committee are beginning to highlight with more frequency internal control issues, and exposure to the risk of fraud, it is therefore essential that the Council maintains a strong anti-fraud culture. The CIA leads on counter-fraud and will need to ensure this part of the audit plan is adequately resourced in 2012/13.
- Compliance with CIPFA Code of Practice**
10. The Chief Internal Auditor has completed a self-assessment of compliance with the CIPFA Code of Practice. There are two areas where full compliance is not achieved:

- "2.3.1 Is the Head of Internal Audit managed by a member of the corporate management team?"

This is scored as partial compliance as the Chief Internal Auditor reports to the Deputy Chief Finance Officer, who is a member of the Extended County Council Management Team. The Deputy Chief Finance Officer also regularly attends at CCMT in her own right. Whilst not strictly compliant with the Code, this is not considered to be an issue. The objective of the standard is to ensure the Chief Internal Auditor can operate with the appropriate status and influence within the organisation. This is set out by the Chief Executive in the Chief Internal Auditor Protocol. The Chief Internal Auditor has direct access as required to the any of the Officers on the County Council Management Team, the Leader of the Council, and Chairman of the Audit Committee.

- "5.5.1 Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?"

This is scored as not compliant as no formal arrangements are in place, with the exception of the protocol with the external auditors. This is not considered to be an issue as is reasonable to operate on a needs basis.

External Audit Reports

11. The External Auditors have not raised any material concerns regarding Internal Audit, and there is good evidence that the two functions are operating well together. As an example of joint working in 2011 Internal Audit provided senior auditor resource working under the direction and monitoring of the Audit Manager from the Audit Commission to complete a review of Severance Pay.

Reports to the Audit Committee

12. The internal audit reporting process changed in 2011/12. Progress and performance reports are now presented to quarterly to the Audit Committee, and contain the executive summaries of all the completed audits in the quarter. From February 2012, all members of the Audit Committee have access to finalised internal audit reports through a restricted area on the Council's intranet.
13. The CIA reports on emerging issues to the Audit Working Group, and on the implementation of management actions. The "emerging issues" has included audits not yet completed but where significant issues have been identified and agreed with officers. This has enabled the Audit Working Group to engage with the relevant service managers at an earlier stage to gain assurance that appropriate action is being taken. This has been very successful during 2011/12 as evidence by Chairman of the Audit Committee in his annual report noting as a key the following as a key achievement:

"Earlier engagement with management to ensure areas of unacceptable control is addressed. In 2011 we have responded promptly to Internal Audit reports with "Unacceptable" conclusions and have met with senior managers to get assurance that prompt actions are taken; E&E Highways Contract; SCS Safeguarding; SCS Alert Service; and, CEF Safeguarding (Quality Assurance Process)."

14. The CIA also takes an annual report to the Audit Committee.
15. The reports from the CIA are well received and Members are generally satisfied with the levels of information they are receiving and actively question and debate audit matters with the CIA.
16. Whilst all reports to the Committee were in the name of the Assistant Chief Executive and Chief Finance Officer, they are presented by the CIA. To protect the independence of the CIA, a protocol has been approved that makes it clear he has direct access to the Chairman of the Audit Committee should he consider it necessary. This independence is further reinforced through the CIA meeting in private session annually with the members of the Audit Committee; however, It is noted that this meeting did not occur during 2011/12. The meeting was originally scheduled for 29 February 2012, but has been deferred to 8 May 2012.

Achievement of Performance Indicators

17. The most recent performance figures reported to the Audit Committee on 18 January 2012 are not satisfactory with in particular evidence of delays in issuing draft and final reports. Since that report the priority has been on completing the Audit Plan and finalising all reports by the target date of 30 April 2012. This appears to be on target for the majority of the audits, but the CIA reports that some of the contract audit work being completed by Deloitte's will not be finalised until May 2012.
18. The performance targets set are challenging but fair, so this is an area that requires attention. The CIA has stated that subject to a successful recruitment to the four vacant posts, he expects a positive impact from having predominantly an in-house team once again, evidenced by way of significant improvement in the performance against the key indicators by quarter 2 of 2012/13.
19. The process for following up agreed management actions is well established, and in general there is good engagement from Management, as evidenced by the reports to the Audit Working Group. 'Action Tracking' software was purchased in 2011/12 to make this process more efficient, but has only recently been fully implemented (April 2012). Implementation was delayed due to resources being prioritised to audit assignments; however the system is now operational, and the first system generated management reports are expected in June 2012.

Annual Survey

20. Questionnaires were sent out to 19 senior managers, (Extended Management Team), to obtain feedback on the internal audit service. The response rate of 100% provides a real measure of how effective Internal Audit is for the Senior Management in the Council.
21. A full analysis of the results is attached as appendix 1 to this report. All areas demonstrated overall effectiveness and positive impact of Internal Audit:
 - 100% tending to agree or strongly agree that the service was effective in delivering improvements to the control environment.
 - The highest returns indicated that 85% strongly agreed that Internal Audit was independent with only a small percentage (15%) who tended to agree.
 - Whilst 100% of respondents tended to agree or strongly agreed that they had an opportunity to provide input to the planning of Internal Audit work. The numbers indicating that 'they tended to agree' was 53%, to perhaps indicate that improvements might be needed in this area.
 - The least favourable response was that only 21% strongly agreed that Internal Audit reports were timely, practical and supported Managers in the management of their key risks whereas 74% tended to agree and one respondent tended to disagree. This area should be further considered by the Internal Audit service.
22. This year, the questionnaire asked for three things to start, stop and continue. Overall, the responses have been very positive across the board but key areas for further consideration were identified, including:
 - Reviewing Risk Registers on a regular basis.
 - Concerns about the actual terminology used on the evaluation and how these are arrived at.
 - Number of suggestions for lunchtime seminars to explain the work of Internal Audit.
 - The need for sharp, focussed work that is readily understandable.
 - Clarity on responsibility as to who is undertaking the work and to continue to follow up on outstanding actions.
 - Meeting with Directorate Leadership Teams to share learning.

CONCLUSION

23. The Internal Audit Service overall continues to be effective but there are areas that require attention, including:
- More priority should be given to resourcing counter-fraud work and delivering the Counter-fraud Plan
 - Significant improvement is required in the timeliness of reporting on audit assignments.

RECOMMENDATION

The Committee is **RECOMMENDED** to approve the Monitoring Officer's assessment of the effectiveness of the system of Internal Audit 2011/12.

Peter Clark
Monitoring Officer and Head of Law & Governance

Background papers: Self- assessment CIPFA Code of Practice for Internal Audit 2006

Contact Officer: Peter Clark

Review of the Effectiveness of Internal Audit 2011/12

Summary of Results

Questionnaires were sent out to 19 Senior Managers (Extended CCMT) to obtain feedback on the internal audit service. The response rate was 100%. The survey provides a real measure of how effective Internal Audit is for Senior Managers in the Council.

I have been given adequate information on the role and purpose of Internal Audit.

Strongly Agree	69% (13)
Tend to Agree	31% (6)
Tend to Disagree	0% (0)
Strongly Disagree	0% (0)

I am consulted by Internal Audit on the key risks and critical systems in my area.

Strongly Agree	74% (14)
Tend to Agree	26% (5)
Tend to Disagree	0% (0)
Strongly Disagree	0% (0)

I am satisfied that Internal Audit is independent.

Strongly Agree	85% (16)
Tend to Agree	15% (3)
Tend to Disagree	0% (0)
Strongly Disagree	0% (0)

I am given an opportunity to comment on Internal Audit's work plans.

Strongly Agree	69% (13)
Tend to Agree	31% (6)
Tend to Disagree	0% (0)
Strongly Disagree	0% (0)

I can discuss the relevance of the planned audit activity throughout the year, and I have the opportunity to request other areas to be looked at where assurance is required.

Strongly Agree	74% (14)
Tend to Agree	26% (5)
Tend to Disagree	0% (0)
Strongly Disagree	0% (0)

On individual audit assignments, where appropriate, I have an opportunity to provide input to the planning of Internal Audit work.

Strongly Agree	47% (9)
Tend to Agree	53% (10)
Tend to Disagree	0% (0)
Strongly Disagree	0% (0)

Internal Audit reports are timely, practical and support Managers in the management of their key risks.

Strongly Agree	21% (4)
Tend to Agree	74% (14)
Tend to Disagree	5% (1)
Strongly Disagree	0% (0)

Internal Audit is effective in delivering improvements to the control environment.

Strongly Agree	69% (13)
Tend to Agree	31%(6)
Tend to Disagree	0% (0)
Strongly Disagree	0% (0)

Please list up to three things that you would like Internal Audit to START doing:

Reviewing directorate risk registers on a regular basis.

Provide ad hoc review facilities for service managers if they would like to look at a certain process.

Start providing staff in internal audit with a career path into services.

If not already done do a short summary of past year and future year Audit activities - single sheet type approach - I am aware that far more info is available if I seek it out but a single page brief for my level and the next tier may be useful in comparing and contrasting any local activity into what IA are doing for others.

If not already, formally liaising with Alexandra Bailey's team on key risks (may already happen)

It would be useful if some of the comments in reports were placed in the context of the overall position. To third parties they can seem to be slightly alarmist and can be taken out of proportion.

The categories of adequate/issues/unacceptable are quite pejorative terms. I remain unclear how the criteria which differentiates 'issues' from 'acceptable' is applied in practice. Issues should relate to significant weakness in the internal control arrangements not just the finding of areas where improvements would increase effectiveness.

Internal Audit have recently started planning more comprehensively with my operational managers directly for their audit plan, and this has been much appreciated. Clearly we will be wanting follow through on this.

Adopting an advisory role, when requested, on the development of project plans and through project implementation processes, providing upstream advice on good design principles and risk management.

I have never been convinced that the classification of results from audits is helpful. Unacceptable is an entirely appropriate description but "Issues" is not.

Ensure that service audits are timely in terms of our overall direction of travel. Hold some briefing sessions for more junior managers and staff so that there is a wider understanding of the Internal Audit role.

More accessible information on the intranet site that demonstrates that audit is there to support managers rather than be seen as a purely compliance role.

Provide a draft statement of concerns ahead of exit meetings to enable managers to consider the accuracy of findings prior to the exit meeting.

Lunch time seminar on the working of internal audit for middle managers

The outcomes of internal audit can tend to be somewhat 'dry' and lacking in terms of understanding the broader context within which directorate business operates: this can result in recommendations that lack relevance to the operation and delivery of the business. This problem is being exacerbated in the current climate of rapid changes in policy and operational matters: at times we are chased on recommendations that are no longer relevant to the business.

Manage processes so that they have a clear beginning, middle and end and do not extend over long periods.

Before audits commence, pull together the key teams/workers (or representatives) whose work is being audited and explain the process/purpose etc of the audit + timeframes

Think more about how the audit can be done 'with' rather than 'to' services as

this will help drive home and embed any identified shortfalls/non compliance.

No surprises in the report. If doing 'with' shortfalls should be very clear to services during the audit.

I meet regularly with Audit Team Management to plan annual activity and receive quarterly performance

Please list up to three things you would like Internal Audit to STOP doing:

No adverse comments in this area. I find the service, and those who work within it, excellent.

Nothing specifically. The closer they are able to work with us operationally the better, as they can be a real help to us as an independent view.

Do not know enough about what they do to comment upon what they should stop.

On occasion the tone of the finalised report does not reflect the tone of discussions with management team during exit interviews resulting in management at times being surprised at a more critical report than anticipated. It may be useful therefore for the auditor to provide a draft RAG status against scope headings at the exit interview.

Asking several managers to agree a report - not always clear who will take overall responsibility for the delivery of the actions - I accept this is something we need to discuss within the DLT

I meet regularly with Audit Team Management to plan annual activity and receive quarterly performance.

Please list up to three things you would like Internal Audit to CONTINUE doing:

Continue being responsive and flexible to individual needs (e.g. based on the work that IA did for our FRS contingency planning activities).

Certainly continue to spend time with senior managers looking at future areas to audit. This approach ensures that areas which may not be obvious are discovered and covered. It also ensures confidence and co-operation. I find Internal Audit really adds value and can be utilised as evidence with third parties of an organisation which is not standing still and seeks to continuously improve performance and standards.

Providing an excellent service with committed staff...

Again it is in working alongside operational managers, highlighting that independent view. I appreciate their understanding of the business, which increases their relevance and impact.

The engagement with the Social and Community Services Directorate Leadership team is good and supports planning on internal audit involvement in key risk areas. Engaging with senior leadership teams in this way should continue.

The supportive approach by Internal Audit is positive and creates an open approach. Therefore this supportive culture should be maintained.

The challenge and scrutiny provided by Internal Audit appears to me to be at the right level.

Helpful constructive challenge

Ibid

Consulting with the senior team at all stages of audit.

Following up outstanding actions via Directorate Leadership teams.

Being an independent sounding board - face to face sessions are very valuable.

Working closely with Senior Management in a supporting role.

Building relationships with key staff

Explaining the purpose of their work

Consulting with managers on what areas to audit

Continue the strong working relationship that we have in terms of quarterly planning meetings which gives me the comfort that there is the ability to shape/inform their work programme

Clarity in relation to audit specification and brief and opportunity to comment and be listened to in areas of disagreement.

Shared but independent approach to improving services and accountability.

Alerting responsible member of DLT as soon as serious concerns emerge

Support around action plans

Attending children's management team to share forward planning and consulting re safeguarding areas for inspection.

Open and honest communication.

I meet regularly with Audit Team Management to plan annual activity and receive quarterly performance