

AUDIT & GOVERNANCE COMMITTEE – 17 APRIL 2013

REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2012/13

Report by the Monitoring Officer

INTRODUCTION

1. In January 2013, the Audit & Governance Committee requested that the Monitoring Officer undertake a review of the effectiveness of Internal Audit. 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 through discussion with the Chief Internal Auditor (CIA); by reference to Committee reports on the Council's intranet site from both Internal and External Audit; by reference to progress reports on Internal Audit presented to the Audit Working Group (AWG) and the Audit and Governance Committee (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 2012/13 the Internal Audit management team has remained unchanged. The CIA and Audit Manager continue to share their time between Oxfordshire County Council, Buckinghamshire County Council and Thames Valley Police.
5. In addition to the Audit Management the collaboration has extended as planned with three new internal audit staff appointed in 2012/13 working across the three organisations.
6. Recruitment has remained an issue in the year, in particular the appointment of a Principal Auditor. That position has been covered in the year through secondments using the call off contract with Deloitte's. It has also been necessary to use the call off contract with Deloitte's to cover some of the key financial systems audits. At the time of writing this report the outcome and performance on the key financial systems work is not known; however, the secondment arrangement has worked very well with the Principal Auditor from Deloitte's contributing a number of high profile audits, and attending the AWG to support the discussion on those reports.
7. 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.

8. In the 2011/12 report, the CIA was tasked with giving more priority to resourcing counter-fraud work. This action has been delivered and counter-fraud is now embedded as part of the work programme for Internal Audit. In delivering this action, a Senior Auditor is taking the lead within the in-house team, but the CIA has established an arrangement with Wokingham Borough Council Investigations Team to manage the counter-fraud work. It has in part been necessary to do this as the CIA and the Senior Auditor are related, therefore there is a potential conflict of interest, but also as it provides access to an experienced counter-fraud team and network to support him in discharging the work. The Senior Auditor has also recently completed training in data analysis to assist with undertaking future proactive fraud testing.
9. The two areas of internal audit work that have been outsourced, Schools Financial Value Standard (SFVA) audits, and IT Audit have been successful, with delivery of both plans achieved to a good standard. It was agreed at the Schools Forum in February that the responsibility for resourcing the SFVA audits would transfer to Oxfordshire Customer Services (OCS) from 2013/14.

Compliance with CIPFA Code of Practice

10. The Chief Internal Auditor reported no change to the systems and processes adopted by the internal audit team in 2012/13.
11. A new code of practice, "Public Sector Internal Audit Standards" was published in January 2013, produced jointly by the Institute of Internal Auditors and CIPFA. A guidance note on the application of these new standards for Local Government is being produced by CIPFA, and is due out in April 2013. As this is still pending, the CIA reported that he will undertake a self-assessment against the new standards in May, reporting the outcome to the Monitoring Officer through the Corporate Governance Assurance Group, and then to the AWG in June 2013.

External Audit

12. The External Auditors do not report formally on the work of Internal Audit; however, there is evidence that the good working relationship and collaborative approach to undertaking the financial audits achieved with the Audit Commission is continuing to work well with the new External Auditors, Ernst and Young.

Reports to the Audit & Governance Committee

13. Progress reports are produced quarterly for the Audit & Governance Committee, and include executive summaries of all completed audits in the quarter. There is also a restricted area on the Council's Intranet where members of the committee have access to the full internal audit report, including the management action plans.

14. The CIA reports on emerging issues to the AWG, 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, enabling the AWG to engage with the relevant service managers at an earlier stage to gain assurance that appropriate action is being taken. This approach was adopted in 2011/12 and has continued to work well in 2012/13. In his annual report the Chairman of the Annual and Governance Committee noted as a key success:

"Earlier engagement with management to ensure areas of unacceptable control is addressed. In 2012 we have continued to respond 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, Home to School Transport Contracts, Property Leases, Financial Administration in area offices; SCS Adult Social Care Management Controls, Personal Budgets; Accounts Payable."
15. In 2012/13 Internal Audit implemented the 4Action management action tracking system. This has resulted in improved reporting to the Senior Managers and AWG on the status of actions.
16. The CIA also takes an annual report to the Audit and Governance Committee.
17. The reports from the CIA are well received and Members are generally satisfied with the levels of information they are receiving.
18. 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 & Governance 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 and Governance Committee. The last private session was on 8 May 2012, with the next one scheduled for 17 April 2013.

Achievement of Performance Indicators

19. Current performance against the indicators (as at 2 April 2013) is as follows:
 - Exit meeting within 3x audit days = 54% (previously reported 60%)
 - Issue of draft report within 15 days of exit meeting = 90% (previously reported 85%)
 - Issue of final report within 15 days of draft = 71% (previously reported 69%)

As at 28 March the status of actions on the audit tracking system for 2011/12 and 2012/13 are as follows:

 - 708 actions being tracked
 - 521 reported as implemented = 74% (previously reported 71%)
 - 123 not yet due = 17% (previously reported 18%)
 - 25 due but only partially implemented = 3% (previously reported 6%)
 - 35 have now been superseded or are pending ratification.
20. In the 2011/12 "review of effectiveness" report it was concluded that "Significant improvement is required in the timeliness of reporting on audit

assignments". The main concern was the turnaround of draft reports and then final reports, where the performance was 67% and 57% respectively. The current performance shows a marked improvement on 2011/12 in these areas; however, in 2012/13 the performance on exit meetings being completed within 3X the audit days has seen a decrease from 71% to currently 54%.

21. The CIA reports that whilst the performance on the turnaround of fieldwork when measured against the target is not good, this is a reflection of the complex audits that are now being delivered. Supported by evidence of the audit reports presented to the AWG, the audits of operational risk areas require a wider understanding of the audit area to be able to evaluate the risks effectively and ensure audit findings are balanced in terms of materiality. By investing more time in the audit is delivering a better output which is being more readily accepted by Management, as demonstrated by the improved performance in the turnaround of draft and final reports.
22. The CIA has identified that improved performance monitoring information is required and will be introducing a new time recording/ audit tracking process in Q1 2013/14.

Annual Survey

23. Questionnaires were sent out to 18 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.
24. A full analysis of the results is attached as appendix 1 to this report. Overall the results are very favourable, with three areas in particular to highlight that demonstrate overall effectiveness and the impact of Internal Audit:
 - **94% (100%*) of respondents tended to agree or strongly agreed that the Service was proactive in giving adequate information about its role/purpose**
 - **100% (97%*) tended to agree or strongly agreed that the Service was independent**
 - **94.5% (97%*) tended to agree or strongly agreed that the Service consulted them on key risks or critical systems in their area**
 - **A further 100% (93%*) tended to agree or strongly agreed that the Service was effective in delivering improvements to the control environment.**

* last year's figures

25. The survey asked three open questions of participants: specify things they would like Internal Audit to start doing, stop doing and continue doing. The results of these are set out at Appendix 1. There appears to be no significant or consistent issues of concern raised. There is a general issue of communication being raised and Internal Audit may wish to look at how they communicate with their Client Groups to better explain the role they play and the work they undertake. Overall, there was very positive general feedback

emphasising the fact that Internal Audit do listen and take on board feedback and concerns on issues but recognising that they will not be unduly influenced. There was no issue whatsoever with regards to questioning the integrity or capability of any of the Officers of Internal Audit and the general comments tend to support the fact that they are highly regarded by Services.

"I find Audit to be invaluable in supporting me to do my job as a Senior Manager. I also find the staff open to feedback and reasonable in their approach – they won't be unduly influenced but they will always listen".

CONCLUSION

26. The Internal Audit Service overall continues to be effective. There are no significant issues to report, but there are three actions for the CIA:
- Complete a self-assessment against the Local Government guidance for Public Sector Internal Audit Standards, reporting to CGAG in May and AWG in June 2013.
 - Implement a new time recording and audit tracking process. Significant improvement is required in the timeliness of reporting on audit assignments.
 - To consider a communications strategy designed to heighten awareness of the role undertaken by Internal Audit.

RECOMMENDATION

The Committee is RECOMMENDED to approve the Monitoring Officer's assessment of the effectiveness of the system of Internal Audit 2012/13.

PETER CLARK

Monitoring Officer and Head of Law & Governance

Contact Officer: Peter Clark

April 2013

Review of the Effectiveness of Internal Audit 2012/13

Summary of Results

Questionnaires were sent out to 18 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	83% (15)
Tend to Agree	11% (2)
Tend to Disagree	6% (1)
Strongly Disagree	0% (0)

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

Strongly Agree	78% (14)
Tend to Agree	16.5% (3)
Tend to Disagree	5.5% (1)
Strongly Disagree	0% (0)

I am satisfied that Internal Audit is independent.

Strongly Agree	83% (15)
Tend to Agree	17% (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	89% (16)
Tend to Agree	5.5% (1)
Tend to Disagree	5.5% (1)
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	83% (15)
Tend to Agree	11% (2)
Tend to Disagree	6% (1)

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	83% (15)
Tend to Agree	11% (2)
Tend to Disagree	6% (1)
Strongly Disagree	0% (0)

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

Strongly Agree	61% (11)
Tend to Agree	33% (6)
Tend to Disagree	6% (1)
Strongly Disagree	0% (0)

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

Strongly Agree	61% (11)
Tend to Agree	39% (7)
Tend to Disagree	0% (0)
Strongly Disagree	0% (0)

Please list the things that you would like Internal Audit to start doing:

Early engagement on scoping of an audit with managers (and staff rep's) to get a rounded understanding of issues to focus on

Focus more strongly on preventive interaction at the start of programmes and changes. This is much better than it was but still room to do more.

Provide assurance that the corporate approach to risk, performance and project management is robust (as changes are made to approach/systems) and that the directorates compliance to the corporate approach is adequate.

It would be of benefit to the directorate if Internal Audit focused on areas that officers were not already actively undertaking investigative work/improvements (ie known issues there were being managed).

Explain their role to more junior managers/staff.

Supporting project development in an embedded way.

I have no suggestions here. I last met with Internal Audit today, and they were happy to accommodate all my requests.

Circulate a list of planned Audit's (and times) to Tier 3s at the start of the year

Further develop their general awareness of the scope and nature of the business of this Directorate

More open and general discussion about the key areas of concerns that the manager has about their area of work and where the priority focus should be for the audit...

Making people more aware about how issues can be referred to internal audit

To look at the following areas: Safeguarding practice in CEF; Children's Centres and Early Years; and school improvement services. All these areas have already been discussed with Internal Audit and agreed for inclusion in future programmes of work

Please list the things you would like Internal Audit to stop doing:

No adverse comments. I have found the IA function to be professional and very helpful.

Relying on a single template and vocabulary for audit reports that is not always wholly appropriate.

Nothing comes to mind at this time - very happy with both what IA are doing and how they go about their business.

Sometimes they hone in on an issue that is not proportionate - depends on the individual experience of the auditor but this is well moderated by more senior staff in Audit.

I have not experienced anything in the last 12 months that I would want them to stop doing.

Again, I have no suggestions. Not all of their activity is comfortable, but it is well directed and gives key assurance.

Given the scale of change to the structure and nature of the business that has taken place over the course of recent years there is a need for greater pragmatism in closing off/down actions from previous audits

Stop using assessment terms that have a different plain English meaning - 'adequate' in most people's eyes is NOT a positive.

Please list the things that you would like Internal Audit to continue doing:

Continue to fully engage with the senior managers of the council so that we can identify areas where their input can add value and ensure compliance.

Happy with programme and approach to date

Good engagement at the start of major programmes when requested. Consultation on priorities

Getting involved during significant service changes (as provided during the procurement of the Property and Facilities Management Contract)

Keep being accessible, customer friendly, professional, consultative and engaging.

Operating as now - consulting with me and the service at the appropriate time; agreeing audit plans and discussing outcomes in a consultative manner.

I find audit to be invaluable in supporting me to do my job as a senior manager. I also find the staff open to feedback and reasonable in their approach - they won't be unduly influenced but they will always listen.

I am happy with the current approach

Providing pragmatic support and working with me to help strengthen our services.

I value the way they are increasingly looking not just at individual and discrete settings, but also thematically and across the Council's activity, so picking up issues across directorates eg safeguarding across children's services and into E/E looking at Transport.

Discussing issues with us, checking back for understanding, raising risks

Continuing with the challenging approach to identify through the audits areas of weakness in internal controls

Continue the close working relationship in terms of planning audit activity and the development of briefs for particular streams of work

open dialogue on the issues and listening to the concerns about practicality of implementing recommendations

Dialogue very good, keep informed of issues and supportive. Appears to be more focused and strategically planned.

We value the 'arms length' analysis of what we do; the way in which Audit colleagues keep us up to date with progress and outcomes of audits; and the opportunity to suggest areas of activity.