

AUDIT & GOVERNANCE COMMITTEE – 10 JUNE 2015
REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2014/15

Report by the Monitoring Officer

INTRODUCTION

1. 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. The Accounts and Audit Regulations have been updated effective from 1 April 2015. There is no longer a statutory requirement for an annual review of the effectiveness of Internal Audit, from 2015/16. The Committee will need to determine whether to cease undertaking this review, to continue with an annual review or to consider simply continuing with the annual survey element?
3. This report outlines the methodology used for the review, and the overall findings and conclusions.

METHODOLOGY

4. 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 Councils 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

5. In 2014/15 the Internal Audit management team remained unchanged. The CIA and Audit Manager shared their time between Oxfordshire County Council, Buckinghamshire County Council and Thames Valley Police.
6. As reported last year the CIA also has management responsibility for Risk Management and for the Insurance Service. There have been no instances in 2014/15 where the potential conflict of interest has occurred. This is closely monitored by the Chief Finance Officer, and the both Audit Managers are clear on the procedure and reporting arrangements should such a conflict occur.

7. The annual survey results are demonstrating that the Internal Audit Team is maintaining good engagement with its clients, both at an operational level and at a Senior Management / Member level. The CIA has the support of the Directors to discharge his responsibilities; and the Audit Managers regularly attend Directorate Leadership Teams, including the Chief Executives Leadership Team, and meet with senior managers to understand emerging issues. The CIA also attends CCMT once a quarter to discuss the quarterly business management reports; and, once a month attends the quarterly CCMT Directorate focussed performance reviews.
8. The Monitoring Officer, S151 Officer and the CIA continue to work closely on governance matters. The CIA is 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.
9. In 2013/14 there was an increase in the level of fraud related activity undertaken by Internal Audit, including proactive fraud work through staff briefing and awareness workshops, but also investigation of reported fraud and financial irregularity. For one investigation there was a conflict of interest reported for both the CIA and a Senior Auditor in the team. This was well managed with the Audit Manager taking the lead role, reporting directly to the S151 Officer and the Monitoring Officer.
10. Delivery of the Internal Audit Plan and overall capacity has been a significant issue in 2014/15. Capacity has been impacted for a number of reasons including performance; sickness, and unplanned fraud response work. In addition more time was required on key audits where the control environment was not as expected. The additional time taken has been required for additional testing, and for consultancy advice and support, necessary to ensure the process is adding value. There is effective management over the quality and performance of the Internal Audit Service; however the increasing demand on the reactive nature of the work has impacted on the ability to deliver on the planned activity. This will need to be addressed as it can impact on the level of independent assurance on the system of internal control provided to the Audit & Governance Committee.
11. Capacity has also impacted on implementing change. Last year it was reported that a series of establishment based "financial management" audits was to be facilitated by Internal Audit in conjunction with the Finance Business Partners; this was not undertaken.
12. In December 2014, the first tranche of funding was received from the DCLG to support "fighting fraud". The grant has been awarded to develop the proactive and reactive counter-fraud work, including collaboration with the Oxford City Investigation Team. Progress on this has been slow, and need to be given a priority in Q2, 2015/16.
13. The outsourcing of IT Audit continues to operate well; and, the outsourcing of the key financial systems audits has also been successful. The latter has

been delivered by Hampshire County Council, and the CIA reports that the arrangement to provide on-going resource is likely to continue during 2015/16.

Compliance with CIPFA Code of Practice

14. The Chief Internal Auditor reported no change to the systems and processes adopted by the internal audit team in 2014/15; therefore whilst overall there is general compliance with the Public Sector Internal Audit Standards, the three areas of non-conformance reported last year remain unchanged. The first point is an accepted position that is being managed appropriately; however the other two areas are matters that can be addressed and need to be actioned:
 - The Chief Auditor has operational management responsibility for the Risk Management and Strategic Insurance functions, so is not wholly independent. The risk of conflict of interest is managed where audit activity is undertaken in areas where the CIA has operational responsibility as the Audit Manager reports directly to the Chief Finance Officer (S151 Officer);
 - An Internal Audit Charter is to be drafted and presented to the Audit and Governance Committee; and,
 - A Quality Assurance and Improvement Programme is being drafted and will be presented to the Audit and Governance Committee with the Internal Audit Charter

Reports to the Audit Committee

15. 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.
16. 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.
17. The CIA also takes an annual report to the Audit and Governance Committee.
18. The reports from the CIA are well received and Members are generally satisfied with the levels of information they are receiving.
19. Whilst all reports to the Committee were in the name of the 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 and Governance Committee.

Annual Survey

20. Questionnaires were sent to the County Council's extended senior management team. This resulted in responses 26 responses (compared to 24 last year).
21. A full analysis of the results is attached as an **Annex 1** to this report. The first part of the survey asked a series of questions to which respondents were invited to provide a rating in answer (from strongly agree through neutral to strongly disagree).

Headlines

Overall the results are very favourable. Three core questions demonstrated a strong level of satisfaction about the nature and effectiveness of the service albeit that the positive results were slightly down on the previous year:

- **81%** of respondents agreed or strongly agreed that the Service was **proactive in giving adequate information** about its role/purpose (92% last year).
 - **77%** agreed or strongly agreed that the Service was **independent** (71% last year).
 - **77%** agreed or strongly agreed that the Service **consulted on key risks or critical systems** in their area (83% last year).
 - **73%** agreed or strongly agreed that the Service was effective in delivering **improvements to the control environment**. (75% last year).
22. The survey then 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 in full in the Annex. There appears to be no significant or consistent issues of concern raised.
 23. The survey reflects the importance and value that managers put on existing levels of engagement with officers in Internal Audit. This appears to demonstrate that the wish, last year, for more engagement has been positively met. Indeed, some individual comments continue to seek a more integrated engagement with Officers of Internal Audit.
 24. There continues to be no issue whatsoever questioning the integrity or capability of any of the Officers of Internal Audit; the comments continue to reflect that the Service is well-regarded. The counterpart is the encouraging support for the view that the service is also regarded as independent.
 25. There is a slight dip in respondents agreeing that the Service is 'proactive in giving information about its purpose'; this differs from last year only in that two fewer people 'strongly agreed' with this; while two more people 'disagreed' with this.

CONCLUSION

26. The Internal Audit Service continues to be effective; however capacity to meet the planned and reactive work needs attention. The CIA reports he is looking at the structure and the current approach to internal audit planning and assurance to try and address the capacity issue.

RECOMMENDATIONS

27. **The Committee is RECOMMENDED to:**
- (a) note the report;**
 - (b) commission the Monitoring Officer to undertake an annual survey at the end of 2015/16;**
 - (c) determine whether to:**
 - (i) cease undertaking an annual review; or**
 - (ii) continue with an annual review; and/or**
 - (iii) continue with an annual survey of senior officers.**

PETER CLARK

Monitoring Officer and Head of Law & Governance

Contact Officer: Peter Clark

June 2015

Review of the Effectiveness of Internal Audit 2014/15

26 responses were received to the **survey**. This summary shows answers to the 'ratings' questions and also to the 'comment' questions (e.g. things Internal Audit should START, STOP and CONTINUE).

Summary of Results

Detailed breakdown for **'I've been given adequate information about the role and purpose of Internal Audit.'**

Option	Results	Count
Strongly Agree	31%	(8)
Agree	50%	(13)
Neutral	8%	(2)
Disagree	12%	(3)
Strongly Disagree	0%	(0)

Detailed breakdown for **'I am consulted by Internal Audit on the key risks and critical systems in my area.'**

Option	Results	Count
Strongly Agree	19%	(5)
Agree	58%	(15)
Neutral	15%	(4)
Disagree	4%	(1)
Strongly Disagree	4%	(1)

Detailed breakdown for **'I am satisfied that Internal Audit is independent.'**

Option	Results	Count
Strongly Agree	23%	(6)
Agree	54%	(14)
Neutral	23%	(6)
Disagree	0%	(0)
Strongly Disagree	0%	(0)

Detailed breakdown for **'I am given an opportunity to comment on Internal Audit's work plans.'**

Option	Results	Count
Strongly Agree	27%	(7)
Agree	38%	(10)
Neutral	15%	(4)
Disagree	19%	(5)
Strongly Disagree	0%	(0)

Detailed breakdown for **'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.'**

Option	Results	Count
Strongly Agree		24%(6)
Agree		40%(10)
Neutral		24%(6)
Disagree		4% (1)
Strongly Disagree		8% (2)

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

Option	Results	Count
Strongly Agree		24% (6)
Agree		36% (9)
Neutral		28% (7)
Disagree		8% (2)
Strongly Disagree		4% (1)

Detailed breakdown for **'Internal Audit reports are timely, practical and support managers in the management of their key risks.'**

Option	Results	Count
Strongly Agree		23% (6)
Agree		35% (9)
Neutral		31% (8)
Disagree		12% (3)
Strongly Disagree		0% (0)

Detailed breakdown for **'Internal Audit is effective in delivering improvements to the control environment.'**

Option	Results	Count
Strongly Agree		23% (6)
Agree		50% (13)
Neutral		19% (5)
Disagree		8% (2)
Strongly Disagree		0% (0)

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

- I was recently called into a two hour meeting with internal audit. I would like internal audit to start using manager-friendly ICT tools, and to start empowering managers to self-evaluate on the risk to the organisation, rather than the operation of a top-down and inefficient process.
- Nothing - they are doing an excellent job
- Take the availability of resource into account.
- Need to involve clinicians in the audits.
- I cannot add anything.
- I would welcome a dialogue about the work planning and where our concerns/priorities fit into the programme.
- An annual report of key finding from all internal audits in any directorate in one year - so can learn from others.
- Circulate audit work plans more widely.
- Shift more resource into pro-active engagement with change/transformation work rather beforehand than after implementation.
- If Internal Audit had more capacity it would be useful for more service areas in the directorate to be checked, in order to help identify any areas where we may need to improve financial management procedures.
- To review the IBC procurement process once it's in place.

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

- Nothing - it is a really important process for accountability and to manage risk to the council.
- Nothing - see above.
- Imposing non-negotiated deadlines.
- I cannot add anything.
- Ideally bringing in people from outside to do the audits as teams get confused and it dilutes the sense of 'our' internal audit team.
- None.

- Asking us what our risks are, and then telling us those things are risks without adding value on how they could be improved.

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

- Spot-checking as well as annual formal auditing with managers.
- An excellent job.
- Need the objective view and the questioning of understandings.
- Appreciate the approach taken particularly from Neil.
- To be available for advice outside the cycle of audit process as a useful check for our developing and improving practice.
- Visits to team meetings.
- Very limited experience with Audit so far, but experience to date has been positive.
- Good engagement from the start to the end of the process. Providing a balanced view of their findings.
- Internal Audit work very effectively with colleagues to identify areas, based on risk assessment, where reviews should be focused, and then follow up with practical constructive audit reports identifying appropriate management actions required. That constructive approach, while delivering an independent view and asking sometimes difficult questions, is particularly helpful.
- To carry on providing help and support in areas identified for improvement.
- Essential that they continue to ensure key financial systems and those which cut across directorates are maintained.

END