

AUDIT COMMITTEE – 20 APRIL 2011

REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2010/11

Report by the Monitoring Officer

Introduction

1. In January 2011, 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 was a requirement of the Accounts and Audit Regulations 2003 as amended in 2006. Since the Committee took that decision the Regulations have been updated, although there is no material change to the requirements for the purposes of this paper.
2. The Accounts and Audit (England) Regulations 2011 came into effect from 31 March 2011, and therefore apply for the reporting on the 2010/11 Statement of Accounts and Annual Governance Statement including the Statement on Internal Control. Regulations 4 and 6 of the new Regulations apply:

“4(2) The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.

4(3) The findings of the review referred to in paragraph (2) must be considered by the members of the body meeting as a whole or by a committee, and following the review, the body or committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

“6 – (1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.

(2) Any officer or member of a relevant body must, if the body requires-

 - (a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
 - (b) supply the body with such information and explanation as that body considers necessary for that purpose.

(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.

(4) The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control as referred to in regulation 4(3), by the committee referred to in that paragraph.”
3. This report outlines the methodology used, and the overall findings and conclusions.

Background

4. The Accounts and Audit (Amendment) (England) Regulations 2011 came into force on 31 March 2011:

Guidance for reviewing the effectiveness of internal audit under these new Regulations has not been issued. Under the previous Regulations (2003) amended 2006 that required a review of the effectiveness of the system of internal audit, guidance was issued by the Department for Communities and Local Government (DCLG) and The Chartered Institute of Public Finance Accounting (CIPFA). Although compliance with that guidance, this Committee has always taken the approach that the Annual Governance Statement process provided the whole review over the system of internal audit, so focussed this review on the effectiveness of the Internal Audit Team. It would therefore appear that our approach remains appropriate to comply with the new Regulations.

5. The Audit Committee annually considers the process for reviewing the effectiveness of the system of internal audit. At their meeting on 19 January 2011, the Committee agreed the previously adopted process is still appropriate and authorised the Monitoring Officer to conduct the review and report back.

Methodology

6. The review has been conducted primarily as a desk top exercise with the collation of evidence from the Assistant Head of Finance, (Audit); 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 Directors, Heads of Services and Business Managers by way of a questionnaire.

Findings

7. In 2010/11 the Internal Audit Team has continued to demonstrate strong resilience and flexibility, by responding to staffing pressures and to major changes in the organisation.
8. The management team remained unchanged during the year, and this has been a key feature. The Assistant Head of Finance (Audit) continues to share his time between Oxfordshire County Council and Buckinghamshire County Council, which could be seen as a risk to this Authority; however, it is clear from the output and from the results of my annual survey that the Audit Managers are managing the day to day operations effectively, and have the confidence of the Directors and Senior Managers.
9. 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. Meetings are usually held quarterly

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with Directorate Leadership Teams, and there is also regular engagement with the Performance and Review Team. The Monitoring Officer, S151 Officer and Assistant Head of Finance (Audit), continue to work closely on governance matters. 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.

10. There has been an increased turnover of staff in 2010/11. Two Auditors, and the Assistant Audit Manager left the team, and a further resignation has been received from a Principal Auditor who will be leaving at the end of April 2011. Although the number of staff is high, the impact has been managed through good utilisation of the call off contract in place with Deloitte.
11. During the year the Audit Committee approved a change to the Annual Governance Statement process with the ending of the Internal Control Checklist procedure. Internal Audit played a major part in the design of this change. They have demonstrated flexibility by responding to the need to ensure that good governance through compliance with key control processes is being maintained. During quarters three and four a major part of their work has been to design and test audit programmes to give assurance in these key control areas. This work has not yet been concluded but is on schedule to report before the end of April. There will be a need for these audits to be completed annually.
12. Internal Audit has responded well to the Corporate Business Strategy, with a realistic four year plan to deliver savings to its budget that is aligned to the way the Council expects to deliver its services in the future. The team has been restructured from a Directorate based two team structure, to one that splits responsibilities between the Audit Managers based on Strategic Risk and Operational Risk. This reflects the expected increase in strategic procurement and change programmes; and, that there will be more cross working by Directorates.
13. Whilst the Internal Audit Team has the right experience at the management level to deliver these changes, and to be responsive, the decrease in the in house staffing numbers in 2011/12 means greater reliance is placed on the call off contract with Deloitte to provide the skilled resources required. One of the key advantages of the in house team is that they understand the culture of the organisation, and have more breadth of local knowledge of the strategic issue. The increased reliance on Deloitte will need close management as their staff will not necessarily have this local knowledge. The Audit Management Team will need to ensure Deloitte staff are well inducted, and their output closely monitored to ensure that the high standards are maintained.
14. 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.

15. The Senior Auditor, who leads on counter-fraud activity, has just returned from maternity leave. The pro-active fraud testing on the key financial systems will be an increasing feature in 2011/12, reflecting the national concern of increase in public sector fraud.
16. There are two areas for consideration that have been highlighted to the Assistant Head of Finance (Audit). It is planned that post audit questionnaires inviting customer feedback will cease in 2011/12. I would advise against this as it provides immediate feedback on the performance of the staff, and could therefore be an effective and timely measure of the impact of the increased use of Deloitte to deliver the Audit Plan. Secondly, in year the decision was taken to stop the detailed time recording and to focus on the timeliness of output as a measure. With the staff turnover and changes to the audit plan in year, it is difficult to judge whether this has been successful. The introduction of quarterly planning should help, but consideration should be given to reintroducing time recording for individual audit assignments.

Compliance with CIPFA Code of Practice

17. No self assessment has been completed this year, as there have been no significant changes to the operation of the service. However, a review should be undertaken in 2011/12 as the strategy is to extend the collaboration with Buckinghamshire County Council, and to increase the working in partnership with Deloitte. It is suggested that this be undertaken in October 2011 once the structure has had time to embed and work practices established.
18. The standards for the Role of the Head of Internal Audit in Local Government being produced by CIPFA has not yet been finalised, but it is proposed that an assessment of compliance is undertaken once it has been published, which should be in time to include as part of the 2010/11 Annual Governance Statement.

External Audit Reports

19. 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. A joint working protocol has been agreed, and in 2010/11 Auditors from the two teams has undertaken joint meetings with the relevant operational staff to minimise the impact on staff time, and to make the audit process more effective. Although there have been some initial communication issues with that approach, overall it has been successful and will continue in 2011/12.

Reports to the Audit Committee

20. There are clearly defined reporting processes in place with the AHoF reporting on quarterly performance and progress to the Audit Working Group.
21. The AHoF also takes an annual report to the Audit Committee.

22. The reports are well received and Members are generally satisfied with the levels of information they are receiving.
23. Whilst all reports to the Committee were in the name of the Assistant Chief executive and Chief Finance Officer, they are presented by the AHoF. To protect the independence of the AHoF, 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 AHoF meeting in private session annually with the members of the Audit Committee.

Achievement of Performance Indicators

24. The Audit Working Group receives reports every quarter on progress with performance indicators. Whilst it is clear there is improvement required across all indicators, the results are satisfactory with no areas for concern.
25. Customer satisfaction feedback is collected on completion of each audit, and this remains an area of high performance for Internal Audit.
26. The process for following up agreed management actions is well established but remains time consuming and a pressure on resources. A project has been initiated with ICT to look for a software solution that will be more efficient.

Annual Survey

27. Questionnaires were sent out to 25 Senior Managers (Directors, Deputy Directors and Heads of Service) to obtain feedback on the internal audit service. The response rate was 100%, which includes one nil return as one postholder had only just been appointed. The survey provides a real measure of how effective Internal Audit is for Senior Managers in the Council.

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:

- *100% of respondents tended to agree or strongly agreed that the Service was proactive in giving adequate information about its role/purpose*
- *100% tended to agree or strongly agreed that the Service was independent*
- *87.5% tended to agree or strongly agreed that the Service consulted them on key risks or critical systems in their area*

28. Whilst overwhelmingly positive there were some variation between 'tending to agree' and 'strongly agree' indicating the need for Internal Audit to consider further how it involves Directorates in commenting on the proposed planning for the Annual work plan and providing an opportunity for them to request other areas to be looked at where assurance is required.

Conclusion

29. The evidence justifies an overall assessment of acceptable effectiveness with no significant weaknesses.
30. 2011/12 will be a challenging year for Internal Audit, but their strategy and new structure appears well designed to meet those challenges.

RECOMMENDATION

31. **The Committee is RECOMMENDED to approve the Monitoring Officer's assessment of the effectiveness of the system of Internal Audit 2009/10.**

PETER CLARK
Monitoring Officer

Background papers: None.

Contact Officer: Peter Clark, Monitoring Officer Tel: (01865) 323907

April 2011

Review of the Effectiveness of Internal Audit 2011

Summary of Results

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

Strongly Agree	79.5% (19)
Tend to agree	20.5% (5)
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	79.5% (19)
Tend to agree	20.5% (5)
Tend to disagree	0% (0)
Strongly Disagree	0% (0)

I am satisfied that Internal Audit is independent

Strongly Agree	83.5% (20)
Tend to agree	16.5% (4)
Tend to disagree	0% (0)
Strongly Disagree	0% (0)

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

Strongly Agree	79.2% (19)
Tend to agree	8.3% (2)
Tend to disagree	12.5% (3)
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	71% (17)
Tend to agree	16.5% (4)
Tend to disagree	12.5% (3)
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	71% (17)
Tend to agree	29% (7)
Tend to disagree	0% (0)
Strongly Disagree	0% (0)

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

Strongly Agree	58% (14)
Tend to agree	42% (10)
Tend to disagree	0% (0)
Strongly Disagree	0% (0)

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

Strongly Agree	62.5% (15)
Tend to agree	37.5% (9)
Tend to disagree	0% (0)
Strongly Disagree	0% (0)

Other Comments Received

I believe that Audit do a good job....

My position is not quite the same as other managers, hence the independence comment - although I do believe that if they were not satisfied with areas under my control they would have the ability to escalate directly to the CEO or through the Monitoring Officer.

Always an excellent and helpful service

Very happy with the effectiveness of the Internal Audit service

I value the process, the report and to some extent the follow up. I think the individuals are of high quality and perform to a high standard. In some ways the only reason I am not strongly agreeing to all questions is my own level of resources in working with IA are inadequate to gain the ultimate benefits from the process.

Audit provide good support and challenge to Property and provide a professional service.

I have found the Internal Audit team to be professional, responsive and constructively challenging as I would expect given their role. Having them attend our leadership team for discussion of the programme and follow ups is very useful and facilitates good mutual understanding and enables us to take clear management action on areas that have not been progressed as outlined or communicated to IA as swiftly as possible.