

## AUDIT COMMITTEE – 21 APRIL 2010

### REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2009/10

#### Report by the Monitoring Officer

#### Introduction

1. As part of the Council's assurance process for the Annual Governance Statement, and in accordance with the requirements of the Accounts and Audit Regulations 2003 as amended in 2006, this report reviews the effectiveness of the system of internal audit undertaken by the Council.
2. At the request of the Audit Committee this review has been conducted by the Council's Monitoring Officer.
3. This report outlines the statutory requirements for the review, the methodology used, and the overall findings and conclusions. The focus of this report is primarily on the role of the Internal Audit Team; whilst the system of Internal Audit is wider than that of just the Internal Audit Team, it is encompassed within the overall Annual Governance Framework that is separately considered by the Audit Committee.
4. There are actions for improvements identified in this report that have been agreed with Assistant Head of Finance (Audit), who is taking responsibility for their implementation. It is recommended to the Audit Committee that progress on implementation should be reported to the Audit Working Group (AWG) by the AHOF (Audit) as part of the Internal Audit quarterly reports.

#### Background

5. The Accounts and Audit (Amendment) (England) Regulations 2006 came into force on 1st April 2006:

**Regulation 6** requires bodies to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control referred to in regulation 4.

6. The Department for Communities and Local Government (DCLG) issued guidance on Regulation 6:

**Review of internal audit:** On the requirement for an annual review of the effectiveness of the system of internal audit and for a committee of the body to consider the findings the guidance says that this process is also part of the wider annual review of the effectiveness of the system of internal control.

7. In January 2009, the CIPFA Audit Panel produced further guidance on reviewing the System of Internal Audit, suggesting the following areas should be reviewed:
  - The process by which the control environment and key controls have been identified - the organisation's risk management system;
  - The process by which assurance has been gained over controls – its coverage of the key controls and key assurance providers;
  - The adequacy and effectiveness of the remedial action taken where there are deficits in controls, which will be led by the audit committee or its equivalent and implemented by management; and
  - The operation of the audit committee and the internal audit function to current codes and standards.
8. The Audit Committee considered this on 21 January 2009 and concluded that there is duplication with the Council's Annual Governance Framework and the Use of Resources assessment, in particular relating to assurance on the risk management system, and the operation of the Audit Committee. It was therefore agreed by the Committee that the focus of its annual review of the effectiveness of the system of internal audit should focus on looking at the Internal Audit Service only. The Committee authorised the Monitoring Officer to conduct the review and report back to the Audit Committee.
9. The Audit Committee annually considers the process for reviewing the effectiveness of the system of internal audit. At their meeting on 20 January 2010, the Committee agreed the previously adopted process is still appropriate and authorised the Monitoring Officer to conduct the review and report back.

## **Methodology**

10. 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**

11. 2009/10 has been a year of change for the Internal Audit Team. Having established a strong reputation internally within the Council, the service has expanded its portfolio by providing internal audit services to external clients, Thames Valley Police Authority and Buckinghamshire County Council. As well as providing development opportunities for the in-house team through working with different clients, the income generation has enabled growth in the Internal Audit Team with the establishment of a Senior Auditor post leading on Fraud, and an additional Auditor post.

12. The management team remained unchanged during the year. There was one resignation of a Senior Auditor, but this post has been successfully filled through an internal promotion. The strategy over the past three years has been to develop the in-house team through professional training, and in 2009 four staff have successfully completed professional internal auditor exams, and one member of staff has successfully completed AAT exams. A Senior Auditor has also started studying for CIPFA. Whilst the strategy is clearly working, professional qualifications do require a considerable overhead in respect of non chargeable time, but the benefits of having qualified experience staff is demonstrated by the quality of work being produced and the success of in-house candidates when seeking promotion opportunities.
13. 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, with the school auditors in particular continuing to receive excellent feedback in the post audit questionnaires.
14. In last year's report it was highlighted there had been an increase in the amount of reactive work required through the investigation of suspected fraud and financial irregularity. This year has seen a similar amount of activity in this area; however the team has identified specific resource for managing this more efficiently and effectively through establishing a post of Senior Auditor, Fraud, who supports the Audit Manager leading on Fraud. The action identified last year has not been implemented, and has therefore been repeated below, however, counter-fraud activity is now well managed and action plans established through benchmarking against the CIPFA and Audit Commission standards for managing the risk of fraud are being monitored through the AWG.

**Action:** The Assistant Head of Finance (Audit), (AHoF) should identify a performance target for the length of time taken between initiating an investigation and reporting on the findings, and should report on performance against the target quarterly to the AWG.

15. This report has been compiled before the year end, but the team is on target substantially to achieve its target of issuing all final reports before 30 April 2009. However, unplanned personnel issues have arisen in the final quarter that will increase the number of days being carried forward into 2010/11 to complete the 2009/10 plan. This has been accounted for in the 2010/11 Plan which was presented to the Audit Committee in March 2010. It should be noted that this is the first time the Audit Plan has been produced for the Audit Committee in advance of the year starting; this is good practice and demonstrates an improvement on previous years.
16. The review has considered the performance of Internal Audit in the following areas:

### ***Compliance with CIPFA Code of Practice***

17. The Assistant Head of Finance (Audit), (AHoF) has completed a self assessment against the CIPFA Code of Practice for Internal Audit 2006. The self assessment has also been presented to the Audit Working Group (8 April 2010) for their consideration and comment.
18. The internal self assessment and sources of evidence provided, confirms that the service is being delivered in compliance with the Code. The new External Auditors, Audit Commission have completed their own review of Internal Audit, including compliance against this standard; their report has not yet been received, but feedback indicates there are no areas of concern.

### ***External Audit Reports***

19. In September 2009, KPMG LLP as the Councils external auditors presented their "Report to those Charged with Governance 2008/9". This included details of their review of the arrangements and controls that ensure an adequate system of internal financial control is in place, including an effective internal audit service. No material issues or concerns were raised.
20. Internal Audit have engaged positively with the Audit Commission in their role as the Council's External Auditors, and the two teams are developing a protocol for joint working that will enable the External Auditors to place reliance on the work of Internal Audit, and to minimise the impact audit on the organisation. The joint working protocol is an outstanding action from last year, but is in draft form so it is expected with be progressed quickly in the first quarter of 2010/11.

**ACTION** – The AHoF (Audit) to develop a joint working protocol with the Audit Commission.

21. The Audit Commission undertook a review of Internal Audit during 2009/10. The Commission concluded that the Council was undertaking its role effectively in accordance with internal audit standards and no significant issues were identified.

### ***Reports to the Audit Committee***

22. There are clearly defined reporting processes in place with the AHoF reporting on quarterly performance and progress to the Audit Working Group.
23. The AHoF also takes an annual report to the Audit Committee.
24. The reports are well received and Members are generally satisfied with the levels of information they are receiving.
25. 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***

26. 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.
27. Customer satisfaction feedback is collected on completion of each audit, and this remains an area of high performance for Internal Audit.
28. The process for following up agreed management actions is well established but remains time consuming and a pressure on resources. Options for reviewing the process with consideration to investing in a software solution may reduce the administrative overhead in the existing process.

### ***Annual Survey***

29. Questionnaires were sent out to 33 senior managers, (Directors, Heads of Service and Business Managers), to obtain feedback on the internal audit service. The response rate of 91% (30 responses) provides a real measure of how effective Internal Audit is for the Senior Management in the Council.
30. 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***
  - ***97% tended to agree or strongly agreed that the Service was independent***
  - ***97% tended to agree or strongly agreed that the Service consulted them on key risks or critical systems in their area***
31. A further 93% tended to agree or strongly agreed that the Service was effective in delivering improvements to the control environment. One comment suggested that preparations for the Exit Interview could, however be more structured, such that service managers are provided with the draft report in advance of the meeting.

### **Conclusion**

32. The evidence justifies an overall assessment of acceptable effectiveness with no significant weaknesses.

33. Areas for improvement are identified in this report. Progress will be monitored both by the Audit Working Group and the Monitoring Officer

### **RECOMMENDATION**

34. **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: Nil

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April 2010

## Review of the Effectiveness of Internal Audit 2009

Questionnaires were sent out to 33 Senior Managers (Directors, Heads of Service and Business Managers) to obtain feedback on the internal audit service. The response rate was 88% (29 replies, the same as 2009). The survey provides a real measure of how effective Internal Audit is for Senior Management in the Council.

### Directorate

12.5%	Children Young People and Families
13.6%	Community Safety
43.2%	Corporate Core
10.2%	Environment and Economy
6.8%	Shared Services
13.6%	Social & Community Services

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

67.0%	Strongly agree
33.0%	Tend to agree

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

58.0%	Strongly agree
38.6%	Tend to agree
3.4%	Tend to disagree

### I am satisfied that Internal Audit is independent.

80.7%	Strongly agree
15.9%	Tend to agree
3.4%	Tend to disagree

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

75.0%	Strongly agree
15.9%	Tend to agree
6.8%	Tend to disagree

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

54.5%	Strongly agree
39.8%	Tend to agree
3.4%	Tend to disagree

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

40.9%	Strongly agree
52.3%	Tend to agree
6.8%	Tend to disagree

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

27.3%	Strongly agree
65.9%	Tend to agree
6.8%	Tend to disagree

**Other comments:**

As Business Manager for the directorate I find Internal Audit support and engagement with our business helpful. Occasionally I have difficulty obtaining information about 'corporate' or organisation-wide audits that impact on the directorate, there does not seem to be a proactive mechanism in Internal Audit to talk to key stakeholders or coordinators like myself in advance, so I tend to find out about something when I'm asked to attend a meeting. Any recommendations from any audit that are tasked to Business Managers must be discussed with them when being formed, not presented to them as a fait accompli as has happened in the past.

Internal Audit has been completely transformed under Ian Dyson's leadership

Internal Audit is good at what they do. I would have expected a greater involvement in development of the ICC framework.

The one audit I have been involved with this year whilst small was very effectively handled

There needs to be a closer correlation between the objectives of audit and scrutiny to ensure that both add value

Internal Audit continues to be one of the best services I encounter; always professional and my expectations are always met or exceeded. Thank you.

Internal Audit perform strongly both on strategic planning and audit cover but I do still return to the unsatisfactory nature of the exit interview where the draft report is not shared in advance and you come to this cold so little opportunity to consider and challenge back.

I like my relationship with Internal Audit.

I have been impressed by the rigour and dedication of the internal audit team, even if the messages aren't always what we'd like to hear!

I am concerned that the focus of the current L&D Audit in terms of planning is not sufficiently recent to add value. The audit has looked at the planning process used for the 2009-10 Plan and has involved my team in providing information from 2008 when the bulk of the planning activity took place. As the planning process is constantly reviewed and improved the process has changed for the 2010-11 Plan which has just been approved by CCMT. The other elements of the audit cover financial and performance monitoring and the focus of these is more timely.

I have been particularly impressed by Internal Audit's consultative approach to agreeing corrective action following an audit.