

AUDIT COMMITTEE – 02 JULY 2014

REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2013/14

Report by the Monitoring Officer

INTRODUCTION

1. In January 2014, 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 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

4. In 2013/14 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. However during the year the CIA took on additional management responsibilities, for Risk Management and for the Insurance Service. Having management responsibility for operational services has the potential to create a conflict of interest, but this is being managed through reporting arrangements; where audits are undertaken in areas under the management of the CIA, the Audit Manager reports directly to the Chief Finance Officer.
5. 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 the Audit Managers regularly attend Directorate Leadership Teams, including the Chief Executive's Leadership Team, and meet with senior managers to understand emerging issues. In addition by taking on the role of Corporate Lead for Risk Management, the CIA now attends CCMT once a quarter to discuss the quarterly business management

reports; and, once a month attends the quarterly CCMT Directorate focussed performance review. The Monitoring Officer, 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.

6. 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.
7. The CIA reports that the arrangements in place for managing Counter-Fraud have changed for 2014/15. The arrangement with Wokingham Borough Council has ceased, and the management now sits with the in-house Audit Manager. The CIA is currently looking at opportunities for providing resilience for investigations, and proactive fraud testing with the City and District Councils.
8. The governance audits undertaken in a sample of establishments as part of the overall Audit Work Plan, continues to identify instances of unacceptable levels of compliance including financial management. As reported to the Audit & Governance Committee the increase in financial irregularity and incidents of poor financial management is an emerging issue. The S151 Officer and CIA have been proactive in looking to address this; Head of Profession briefings have been given to the Finance Functions emphasising their role in supporting the S151 Officer with financial stewardship; a post implementation review of the Finance restructure completed in July 2013 has been completed; and the S151 Officer has identified funding for undertaking a programme of financial management “audits” across establishments, that will be facilitated by Internal Audit in conjunction with Finance Business Partners.
9. The outsourcing of IT Audit continues to operate well; however the outsourcing of some of the governance audits, including key financial systems, and the secondment of a Senior Auditor through the call off contract with Deloitte PSIA (now Mazars) did not perform to the levels expected. This put pressure on the delivery of the Audit Plan, and whilst the situation has been managed, it has resulted in an overrun on the delivery of the Plan. Resourcing remains an issue, and the main risk for the team.

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 2013/14.

11. The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards; however, there are currently three areas of non-conformance with those standards:-
- 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

12. 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.
13. 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. This process has been in place for two years and continues to operate well.
14. 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.
15. The CIA also takes an annual report to the Audit and Governance Committee.
16. The reports from the CIA are well received and Members are generally satisfied with the levels of information they are receiving.
17. 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 & Governance Committee.

Achievement of Performance Indicators

18. 2013/14 performance against the indicators is as follows:
- Exit meeting within 3x audit days = 70% (previously reported 55%)

- Issue of draft report within 15 days of exit meeting = 82% (previously reported 74%)
 - Issue of final report within 15 days of draft = 65% (previously reported 86%)
19. Whilst there appears an overall improvement against the performance targets in 2013/14, the exception is the turnaround of final reports. This was previously an issue in 2011/12, where the performance was at 57%. This was improved significantly in 2012/13, but has fallen back again. This is clearly an area of focus for improvement.
20. The CIA has introduced a new performance monitoring process for 14/15, with monthly reports being initiated from end of June 2014 highlighting time spent and status of an audit against the performance targets so that any issues can be identified early and managed.

Annual Survey

21. Questionnaires were sent out to the County Council's extended senior management team. This was to a wider number of managers than in previous years and resulted in a greater number of responses (24) than previously (18).
- A full analysis of the results is attached as 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). 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 (the asterisk in the bullet points below refers to last year's figures):
 - **92% (94%*) of respondents tended to agree or strongly agreed that the Service was proactive in giving adequate information about its role/purpose**
 - **71% (100%*) tended to agree or strongly agreed that the Service was independent**
 - **83% (95.5%*) tended to agree or strongly agreed that the Service consulted them on key risks or critical systems in their area**
 - **A further 75% (100%*) tended to agree or strongly agreed that the Service was effective in delivering improvements to the control environment.**
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 at Annex 1. There appears to be no significant or consistent issues of concern raised. As last year, there is a general issue of communication and so Internal Audit may wish to consolidate on-going work as to how they communicate with their Client Groups better to explain the role they play and the work they undertake. Some comments also related to the topic of Internal Audit needing to engage more (in conversation and understanding) with services, to gain more structured involvement and

buy-in from them. 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. This is an important counterpoint alongside the lower figure in the ratings questions as regards the service's independence. Interestingly, the comments in the survey did not offer any explanation as to respondents' views on the service's independence (although it is perhaps worth noting that 25% of respondents chose to remain 'neutral' on that ratings question).

23. A further question, added this year, asked participants about the overall opinions offered by Internal Audit's findings and the 'red-amber-green' approach used in reports following individual audits. 67% of respondents answered this question; and of these, 75% were very positive about this approach.

CONCLUSION

24. The Internal Audit Service is acceptable overall and continues to be effective. The CIA needs to address the areas of non-conformance with the Public Sector Internal Audit Standards.

RECOMMENDATION

25. **The Committee is RECOMMENDED to approve the Monitoring Officer's assessment of the effectiveness of the system of Internal Audit 2013/14.**

PETER CLARK

Monitoring Officer and Head of Law & Governance

Contact Officer: Peter Clark

June 2014

Review of the Effectiveness of Internal Audit 2013/14

24 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

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

Strongly Agree	42% (10)
Agree	50% (12)
Neutral	4% (1)
Disagree	4% (1)
Strongly Disagree	0

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

Strongly Agree	29% (7)
Agree	54% (13)
Neutral	13% (3)
Disagree	4% (1)
Strongly Disagree	0

I am satisfied that Internal Audit is independent.

Strongly Agree	33% (8)
Agree	38% (9)
Neutral	25% (6)
Disagree	0
Strongly Disagree	4% (1)

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

Strongly Agree	22% (5)
Agree	48% (11)
Neutral	17% (4)
Disagree	13% (3)
Strongly Disagree	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	29% (7)
Agree	42% (10)
Neutral	17% (4)
Disagree	13% (3)
Strongly Disagree	0

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

Strongly Agree	38% (9)
Agree	50% (12)
Neutral	8% (2)
Disagree	4% (1)
Strongly Disagree	0

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

Strongly Agree	21% (5)
Agree	46% (11)
Neutral	25% (6)
Disagree	8% (2)
Strongly Disagree	0

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

Strongly Agree	29% (7)
Tend to Agree	46% (11)
Neutral	21% (5)
Tend to Disagree	4% (1)
Strongly Disagree	0

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

More visible tracking on audit and action point progress.

Conduct a satisfaction survey with customers involved after individual Audits are completed. Evidence (and communicate) action on feedback received. More communications to a wider audience (Tier 3 and Tier 4 at least) on the respective roles and responsibilities of Internal and External audit"

Look at the strategic risks inherent in different funding streams for investment. Also, focus more on outcomes and not financial aspects of services/projects.

I am not sure they can take on additional activities as they often seem to have capacity issues.

More joined up approach to risk registers and related management functions. Greater understanding that finance is only one aspect of good management.

Provide an audit timetable. Provide a list of audit standards against which we are being audited prior to any meetings. Provide an audit report post audit specific to the directorate. Not just a management letter if issues are found. Provide timely feedback.

I think they provide what is required in my service area.

No suggestions - have had opportunity to discuss work programme in advance and views reflected.

I had a recent meeting with internal audit, and we agreed all the areas where we would wish action to happen, so nothing to add to that.

Return to a spirit of proactive cooperation; listen to views in a more open-minded way to ensure business context is understood by auditors correctly; create a sense of "we're here to help" rather than be seen as here to criticise and condemn; think about value added activity not box ticking exercises; subjecting themselves to independent inspection (who checks out the checkers?). Take a realistic view of what services can do in the face of diminishing resources and increasing demands, and find ways of helping service leads, proactively.

Gaining a greater understanding of the context in which the service is operating.

Be aware of the different audiences we serve.

More reviews of establishments to reduce low level fraud. More training around Internal Control.

I would like to see Internal Audit considering its role in supporting directorates and embedding in improvement programmes.

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

Don't allow an Audit to proceed if the area concerned is already subject to fundamental change or re-organisation, restructure etc and that will complete within the next 12 months.

Difficult to be precise on this I know and I think this happens most times but not always. As the whole organisation is changing quite substantially its probably really difficult to get the right balance or calibration on this. But I guess this is about prioritising use of scarce audit resources.

Standard audit checks that should be transferred across to Directorates through a skills transfer approach.

I don't think that there is anything that they should stop doing.

Inviting people to meetings without being explicit that they are audit meetings.
Having audit meetings where questions are so non specific that it feels like a general chat.

Don't feel that there is anything that I would feel strongly they should stop doing in my service area.

Stop taking input designed to be helpful and indicative of challenges faced by service areas as evidence of poor and/or malpractice; being seen as a way of getting rid of unpopular managers and in other ways manipulated by very senior managers to bring about business change; inciting elected members to become unnecessarily vexed by relatively minor issues that overshadow more serious matters; stop trying to act as the only custodians of good commercial sense, shared values and ethics and making everyone else feel they are of no value in this respect.

Making assumptions about the work we do, include us in the planning so we can inform the process and content.

I would like Internal Audit to consider the frequency of audits and the workload implications on directorates.

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

Being independent and challenging what goes on.

Excellent engagement with clients. Confidence to challenge senior managers.
Practical view of what controls make sense.

Only publish Draft conclusions to those who have participated or are required to sign off. Continue to increase the proportion of internal audit resource given to support change and development work for services rather than BAU. I strong support and value Internal Audit input at the start.

Checking control systems on income streams.

Assist in investigations where there are concerns as to whether a manager or employee has followed the OCC procedures.

Flexible and responsive - advice and consultation very helpful and does not always have to be linked to a specific internal audit process. I think we should be using this aspect of the role more to assist management decision making.

Pursuing areas of poor practice and malpractice.

Trying to help improve systems.

Think they are providing good service as is.

Key is engagement with managers in planning overall work programme and in individual audits. Fully accept that audit needs to retain right to independent set their own direction to ensure controls and risks fully covered, but engagement process helps gain buy in from managers, and ensures audit is seen as a positive support rather than a critical process.

Providing me with an opinion on the internal control environment of the organisation.

As they are. The work they are doing is helpful and complementary to our own work in service.

Internal Audit can and should have an important role in good governance and the spreading of good practice, and be seen as a value adding partner to service areas, so it will be good to see a return to that way of working.

I appreciate the opportunity to feed into the planning of audits and audit outcomes.

Providing challenge about the quality of our work.

Do you find the overall opinions of the RAG (red, amber, green) ratings useful in the audit reports.

Yes x 6

I don't like issues as a description. It feels like this covers - overall things are essentially fine but there are some minor improvements to this is close to being unacceptable but isn't quite as bad as that. Would it make sense to have two categories to replace issues - one "close to acceptable"; the other "close to unacceptable" or something along those lines.

Not sure if RAG ratings always give the best sense. Sometimes these blunt ratings distract from the key facts and issues ie people may not read much beyond. It will always be difficult I guess to avoid a touch of 'Peter and the Wolf'.

Curiously, I can see how the current Ofsted Schools Inspection template might work better in some contexts.

Yes although as this a snapshot a method should be found to illustrate direction of travel.

RAG rating can be a useful indicator but need to look beyond.

They can distract from the actions.

I don't remember seeing an audit report with any RAG ratings.

I think overall opinion and RAG ratings have some value, but my focus is on the individual findings, the risks that follow and the management actions to be agreed. If these are worth reporting, they require consideration irrespective of overall

opinion and RAG score. These though help to prioritise between various audit reports, and help to ensure sufficient focus from senior managers and staff.

Yes. I explored this with Ian Dyson. The opinions are helpful, and it also concentrates the mind to have RAG ratings.

The fact that views are expressed as "opinions" conveys a sense of subjective criticism rather than fact based analysis and objectively scored assessment. Except for extreme cases of high risk and bad practice a more graded scale through a performance assessment could be more helpful with more easily understood criteria and commentary.

I find them useful.