

<b>Report of:</b>	<b>Head of Governance</b>
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<b>Portfolio Leader:</b>	
<b>Key Decision:</b>	<b>No</b>
<b>Report Track:</b>	<b>Audit &amp; Governance only</b>

**Audit & Governance Committee**  
**25<sup>th</sup> June 2013**  
**Review of the Effectiveness of Internal Audit**

**1 Purpose of Report**

- 1.1 For members of the Audit & Governance Committee to consider the findings of the annual review of the effectiveness of internal audit.

**2 Recommendations**

- 2.1 That Members
- (i) note the findings of the annual review of the effectiveness of internal audit for 2012-13;
  - (ii) note that Internal Audit is operating effectively and can be relied upon when considering the Annual Governance Statement for 2012-13.

**3 Key Issues and Reasons for Recommendation**

- 3.1 Under the Accounts and Audit Regulations 2011 the Council is required to undertake an annual review of the effectiveness of its internal audit.
- 3.2 The review has comprised:
- (i) a self-assessment review undertaken by the Chief Internal Auditor of the section's work against the Cipfa Code of Practice for Internal Audit;
  - (ii) a self assessment review undertaken by the Chief Internal Auditor of compliance with Cipfa's Role of the Head of Internal Audit in Public Service Organisations; and
  - (iii) an independent review by the Head of Governance and the s151 Officer

- 3.3 In addition to the review against the professional standards a review has also been undertaken of the performance and quality of the service.
- 3.4 The review has shown that Internal Audit is operating effectively and can be relied upon when considering the Annual Governance Statement for 2012-13

#### **4 Relationship to Corporate Priorities**

- 4.1 This report supports the Council's Corporate Priorities as follows:
- (i) The system of internal control is a key element of the Council's corporate governance arrangements which cut across all corporate priorities.

#### **5 Report Detail**

- 5.1 The review has only been a light-touch this year and has generally sought to confirm that there have been no significant changes since the review done for 2010-11. It was felt that a light touch view was appropriate given that:
- the audit service has been undergoing a review of its working practices as part of the Shared Services Transformation process; and
  - the Public Sector Internal Audit Standards (PSIAS) were launched to take effect from 1<sup>st</sup> April 2013.
- 5.2 The independent review, which included a review of both of the self-assessments, concluded that there were no areas of non-compliance with the Code of Practice for Internal Audit or the paper on the Role of the Head of Internal Audit. For the areas of partial compliance the effectiveness of the section was not considered to be seriously affected; a small number of the areas partial compliance with the Cipfa Code is considered to be acceptable due to local circumstances.
- 5.3 Summaries of the reviews of compliance are attached as follows:
- (i) the Cipfa Code of Practice for Internal Audit - attached at Appendix 1; and
- (ii) the Cipfa paper on the Role of the Head of Internal Audit in Public Service Organisations - attached at Appendix 2.
- 5.4 In addition to the compliance with professional standards the section has also reviewed:
- (i) the performance of the service ie the delivery of the audit plan; and
- (ii) the quality of the service – this has included satisfaction with the service, the number of recommendations made and the implementation of recommendations.

As shown in the Annual Audit Report for 2012-13, the Internal Audit Service has met its key performance targets. The section has delivered 100% of the planned audit work in the year, has received a 92% satisfaction score on the post audit

questionnaires and the External Auditor has stated that they are happy to place reliance on the work of Internal Audit.

5.5 In previous years an action plan has been produced to improve areas of partial compliance. A separate action plan has not been produced this year and there are 2 reasons for this:

- (i) the service has a Transformation Plan which has been used to drive improvements in the Internal Audit Service and this has been followed in 2012-13.
- (ii) The PSIAS which the section will have to conform with from 1<sup>st</sup> April 2013 whilst being generally similar to the Cipfa Code of Practice there are some additional requirements and changes in emphasis from the existing requirement. A gap analysis will be prepared and the resulting action plan will be presented to the Audit Committee at a meeting later in the year.

5.6 As part of the PSIAS, Internal Audit will be required to produce a Quality Assurance and Improvement Programme. As part of the development of this the future options for the delivery of the review of the effectiveness of Internal Audit will be considered. This will include a mandatory external independent review on a periodic basis. The options for undertaking the external review will be brought to the Committee for consideration in due course

5.7 Overall, the review has shown that the internal audit is operating effectively and can be relied upon when considering the Annual Governance Statement 2011-12.

## **6 Implications**

### **6.1 Financial**

None

### **6.2 Legal**

None

### **6.3 Human Resources**

None

### **6.4 Section 17 (Crime Prevention)**

None

### **6.5 Human Rights Act**

None

### **6.6 Data Protection**

None

**6.7 Risk Management**

None

**6.8 Equality & Diversity**

None

**6.9 Best Value**

**None**

**7 Appendices to the Report**

Appendix 1 - Summary of Compliance with the Cipfa Code of Practice for Internal Audit

Appendix 2 – Summary of Compliance with Cipfa’s paper on the Role of the Head of Internal Audit.

**Previous Consideration**

**None**

**Background Papers**

**File with the Chief Internal Auditor**

**SUMMARY OF COMPLIANCE WITH THE CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT 2012-13**

<b>Adherence to the Standard</b>	<b>Yes</b>	<b>Partial</b>	<b>No</b>
<b>1. Scope of Internal Audit</b>			
There are terms of reference in place which meet the requirements of the Cipfa Code of Practice for Internal Audit. The TOR are approved by the Audit & Governance Committee.	✓		
The organisation's assurance, risk management arrangements and monitoring mechanisms are taken into account when determining Internal Audit's work and where effort should be concentrated. The audit plan methodology has links to the output from the risk management process and an exercise was carried out to map the assurance to the items on the strategic risk register to the Audit Plan.	✓		
The terms of reference define Internal Audit's role in fraud & corruption and consultancy work. Internal Audit does not undertake much consultancy or fraud & corruption work. Where it does appropriate staff are assigned depending on knowledge and skills. A contingency is held to cover such work but if it is likely to exceed this and impact on the plan, then this would be reported to the Audit Committee. The Council's anti-fraud & corruption policy requires Internal Audit to be notified of all suspected or detected fraud, corruption or impropriety	✓		
<b>2. Independence</b>			
Internal Audit is independent of the activities it audits. The Head of Governance has responsibility for other non-audit areas so independence is compromised at that level but safeguards are in place so that Chief Internal Auditor can report findings directly to the Chief Executive where necessary. Internal Audit undertakes a minimal amount of non-audit duties – it undertakes financial appraisals as part of the tendering process; this does not have any significant impact on its independence.	✓		
Internal Audit has sufficient status to demonstrate its independence. The Chief Internal Auditor has direct access to the Chief Executive, Monitoring Officer, S151 Officer and the Audit Committee. The CIA reports in his own name	✓		
The CIA reports to Head of Governance, who is a member of Leadership Team The Head of Governance reports directly to the Chief Executive and has an audit background. The CIA can report directly to the Chief Executive where necessary.	✓		
Audit staff are required to make formal declarations of interest and the audit planning process takes account of any such declarations of interest	✓		
<b>3. Ethics for Internal Auditors</b>			
The CIA periodically reminds audit staff of their ethical responsibilities. All staff are reminded of the contents of the CIPFA code and the Council's own Code of Conduct.	✓		
The internal audit team has established an environment of trust and confidence. Staff appear to have trust in Auditors to offer good advice etc. There are no concerns over lack of confidentiality. There is no evidence to suggest that integrity has been compromised	✓		
Internal auditors are perceived as being objective and free from conflicts of interest. Staff are rotated on regular/ annually audited areas as much as possible depending on experience and work available. However there are limitations on this due to the small team. Also there can be advantages to the same person doing an audit on a couple of consecutive occasions and this is done. Try to rotate every so often to widen experience and avoid cosy relationships or to allow a fresh pair of eyes to look at the system.	✓		
So far as is reasonably possible the Chief Internal Auditor ensures that audit staff have sufficient knowledge to undertake each audit assignment.	✓		
Internal audit staff understand their obligations in respect of confidentiality. The importance of confidentiality is outlined on the front of all reports and in the annual declaration by auditors.	✓		

## Appendix 1

Adherence to the Standard	Yes	Partial	No
<b>4. Audit Committees</b>			
There is an Audit Committee in place and there is an effective working relationship between the committee and Internal Audit. Pre-meetings are held with the Chair of the Committee as appropriate and there is a good dialogue with all members at the committee.	✓		
The Committee approves the audit plan and the audit strategy. The Committee also receives quarterly reports in relation to performance of internal audit.	✓		
The Chief Internal Auditor attends the committee and contributes to its agenda. The CIA reports on the progress of audit work quarterly and a full annual audit report is presented to the committee. The CIA has pre-meetings with the Chair where necessary, which provides opportunities to discuss matters in detail.	✓		
<b>5. Relationships</b>			
There isn't a comprehensive written protocol that defines the working relationship for Internal Audit with management, members and other parties. However, the Head of Governance and the Chief Internal Auditor seek to maintain effective relationships between internal auditors and managers and details are contained in the Terms of Reference for Internal Audit. CIA and Head of Governance attend WMT/Corporate Forum and network with other managers. Regular contact is maintained with key managers where large issues are identified or areas regularly audited. The Audit Plan is discussed with Managers and an opportunity given to influence timing, though cannot always take into account managers wishes. The establishment of the Audit & Governance Committee has helped to develop a good working relationship with members.		✓	
Meetings are held as and when appropriate with the External Auditors – to be formally scheduled in future. Internal Audit advise the External Auditors of its Audit Plan and aims to deliver the audits which External Audit will rely on by the dates they require. Internal Audit are consulted by External Audit when they are preparing their plans. External Audit rely on the work of Internal Audit after completing a review of files.	✓		
<b>6. Staffing, Training and Continuing Professional Development</b>			
Internal Audit is appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards. Both the CIA and Head of Governance are CIPFA qualified with a number of years audit and management experience. The team also has 1 ACCA qualified member, 1 Cipfa Qualified Member, 1 FMIIA and 1 AAT qualified. All staff have a minimum of 7 years Internal Audit Experience.	✓		
The CIA has access to appropriate resources where the necessary skills and expertise are not available within the internal audit team. A budget is available to buy in IT audit expertise but this only funds 5-6 computer audits per annum. There is no funding for other specialist work that may be required or to cover shortfalls in delivery of the audit plan due to high levels of sickness or prolonged vacancies.	✓		
All internal audit staff have appropriate job descriptions and person specifications although a rolling review is taking place to ensure that they are fully up-to-date post shared services.	✓		
The skills and competencies for each level of auditor are outlined in the person specification for each post, though a full competency framework is to be developed for each post in the near future. Individual auditor's performance is assessed annually as part of the Council's personal development review process and any training needs are identified. Training needs are also reviewed when necessary throughout the year.		✓	

**Appendix 1**

Adherence to the Standard	Yes	Partial	No
<b>7. Audit Strategy and Planning</b>			
There is an internal audit strategy for delivering the service the strategy covers those requirements outlined in the Cipfa Code.	✓		
<p>A risk-based plan is in place. The plan is informed by the organisation's risk management process, the CIA also carries out his own assessment as part of the audit planning process. The draft plan was discussed with the s151 Officer and taken to Leadership Team for comments prior to finalising it for approval by the Audit Committee.</p> <p>The plan is for a period of 12 months and lists each audit area by priority (risk score). The plan identifies the time allowed for each review. The plan includes a contingency provision to allow additional work to be carried out either in relation to the investigations or additional assurance work due to emerging issues in the year. Where necessary items may be moved off the planned work in the year if other items are deemed to be of a higher priority. If this occurs any changes to the plan are reported to the Committee.</p> <p>The plan is reported to the Audit Committee. Any matters that may jeopardise delivery of the audit plan are included in the quarterly progress reports to the Committee.</p>	✓		
<b>8. Undertaking Audit Work</b>			
A brief is issued to the relevant Service Lead Officer and a signed copy is requested to be returned. Auditors should also discuss and agree the scope of the audit with the relevant Service Manager. The audit briefs cover the requirements laid out in the Cipfa Code. Auditors should keep the Chief Internal Auditor informed of progress and major weaknesses discovered. Where relevant these will be raised with the relevant managers either informally or more formally in the case of an interim memo where the weaknesses are more significant. All audits are subjected to a file review process by the Chief Internal Auditor or senior member of the team prior to reports being issued.	✓		
The CIA has defined the standard for audit documentation and working papers. Standard templates are used. Quality reviews by the CIA ensure that the defined standard is followed consistently for all audit work.	✓		
Working papers should be clear and concise and give references to allow the same sample to be re-examined if necessary. Working papers should indicate the sample size and where the sample has been taken and include a summary of the findings. Testing schedules should also indicate fuller details for the sample. The working paper should summarise the auditor's findings so that the conclusions can be included in the full report where relevant.	✓		
There a defined policy for the retention of all audit documentation, both paper and electronic. A retention policy was agreed across Staffordshire by the Chief Auditors. All files are stored in locked cupboards. Only audit staff have access to the electronic files. Access to files is restricted to those who need to see them. If copies of reports are to be issued to others the client department will be asked to confirm that they are happy for them to be released.	✓		
<b>9. Due Professional Care</b>			
The Council's Code of Conduct covers many of the requirements governing the conduct of audit staff in carrying out their work. The Audit Manual gives details on more specific audit issues and all auditors aware of the Cipfa Code of Practice	✓		
The Chief Internal Auditor ensures that due professional care is achieved and maintained through supervision and reviews of audit files.	✓		
There are systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct both directly through their audit work to the CIA or through the Council's Confidential Reporting/Whistleblowing and Anti-Fraud & Corruption Policies	✓		
<b>10. Reporting</b>			
The CIA has determined the way in which Internal Audit will report and the standards for reporting. A standard template is used and this meets the requirements of the Cipfa Code. All audit reports give an opinion on the control environment and risk exposure and include an action plan. The CIA has determined a process for prioritising recommendations according to risk, using standard definitions. All audit reports are discussed with managers prior to being issued. The circulation of each audit report is determined when preparing the audit brief. Any areas of disagreement are recorded in the action plan if they cannot be resolved through discussion.	✓		

## Appendix 1

Adherence to the Standard	Yes	Partial	No
All audits are followed-up after 6 months. Escalation procedures for internal audit recommendations not implemented by the agreed date are in place. Where the audit is still limited assurance at the follow-up this will be reported to the relevant Head of Service and a copy of the follow-up presented to the Audit Committee. At the second follow-up if it is still limited the Audit Committee will call in the Head of Service and Service Lead Officer for an explanation. A revised opinion is given as part of each follow-up.	✓		
The CIA provides an annual report to support the Annual Governance Statement. The Annual Audit Report meets the requirements of the Cipfa Code. Quarterly reports are provided to the Audit Committee to update on progress.	✓		
<b>11. Performance, Quality and Effectiveness</b>			
The CIPFA Audit Manual is used and has been tailored in places to meet CCDC specifics. The manual is reviewed and updated as necessary to meet the needs of the section.	✓		
The CIA has arrangements in place to assess the performance and effectiveness of each individual audit through files reviews and the issue of Audit Satisfaction Surveys to managers at the end of each audit.	✓		
The performance of the internal audit service as a whole is reviewed quarterly through progress reports against the plan and annually as part of the review of the effectiveness of the system of internal audit.	✓		
The CIA ensures that work is allocated to auditors who have the appropriate skills, experience and competence. However this is limited by small team and also by the need to allow auditors to have new audits to develop their needs and experience.	✓		
The CIA supervises as appropriate and reviews all work at the end of each audit, prior to report being issued. This is done through ad hoc meetings and both formal and informal reviews of work. Advice and support given where necessary or where staff ask for support.	✓		
The CIA has a performance management and quality assurance programme in place. Performance is monitored against the whole plan and for individual auditors for throughout the year. Performance against the audit plan is monitored and reported quarterly to the Audit Committee. All audit work is reviewed to ensure quality and Audit Satisfaction surveys are issued to all managers at the conclusion of a piece of work. The CIA compares performance over time and with the other Staffordshire councils and within the Cipfa Benchmarking Club as appropriate. The CIA reports on the results of performance managements and quality assurance in the Annual Audit report.	✓		

## SUMMARY OF COMPLIANCE WITH THE CIPFA PAPER ON THE ROLE OF HEAD OF INTERNAL AUDIT – 2012-13

Adherence to the Standard	Yes	Partial	No
<b>1. The HIA in a Local Authority plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.</b>			
CIA's role in governance and how it fits with other key officers (s151, Head of Paid Service & Monitoring Officer) is defined in the Job Description	✓		
Managers do not always adequately consult with Internal Audit on changes to systems or new projects/initiatives to ensure adequate governance arrangements are in place. However most major changes in processes are consulted on.		✓	
The Council have a number of policies in place relating to conduct of employees and governance arrangements. However a number of these are in need of updating and more work needs to be done to promote compliance with the policies across the Council.		✓	
HIA does promote good governance, behaviour and high standards across the authority.	✓		
There is a corporate requirement to report suspected or confirmed frauds to Internal Audit	✓		
<b>2. The HIA in a Local Authority plays a critical role in delivering the organisation's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.</b>			
Internal Audit is separate to External Audit and the HIA does not manage other operational services. IA has defined terms of reference which cover key relationships as well as reporting arrangements. The HIA has arrangements for providing an opinion on the governance arrangements which feeds into the Annual Governance Statement but the HIA is not responsible for writing the AGS.	✓		
The Council does not have a clear system prompt reviews of key policies on a periodic basis. This means that policies which ensure and promote good governance are not always regularly reviewed and updated.		✓	
HIA has responsibility and the remit to review the Council's control environment and governance arrangements including risk management and significant partnerships, the result of audit work is reported and an annual opinion provided. The HIA liaises with External Audit to share knowledge and maximise the use of resources but EA do not direct the work of IA.	✓		
The HIA is able to report in their own name without fear or favour. The HIA works well with other key officers to bring key issues to the attention of the Leadership Team & Audit Committee to ensure significant recommendations are implemented.	✓		

<b>Adherence to the Standard</b>	<b>Yes</b>	<b>Partial</b>	<b>No</b>
<b>3. The HIA in a Local Authority must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.</b>			
HIA functions are generally carried out by the Chief Internal Auditor although some aspects are with the Head of Governance. Both these officers are sufficiently senior and independent within the Council's structure to allow the HIA role to be carried out effectively. Internal Audit have unfettered right to documents and to seek explanations.	✓		
The Chief Internal Auditor is managed by the Head of Governance who is part of the Leadership Team.. Both officers work to raise the profile of Internal Audit.	✓		
The Council has an audit committee which operates in line with best practice. However the committee has not carried out a self-review exercise for a number of years. The terms of reference for the Committee and IA set out the relationships of the HIA to the committee.		✓	
The Audit Strategy and Audit plan are discussed with the Leadership Team and the Audit Committee prior to being finalised.	✓		
<b>4. The HIA in a Local Authority must lead and direct an internal audit service that is resourced and fit for purpose.</b>			
Internal Audit aims to meet the needs of the council and external stakeholders. IA has established an appropriate quality assurance framework and the team are always looking for ways to develop the effectiveness of the service. The IA team aim to lead by example with high standards including integrity, objectivity, openness, competence and confidentiality.	✓		
Where resources/skills are lacking in-house (eg IT Audit) the section looks to bring in outside expertise. During the Audit Plan process the CIA assesses resources against the need to carry out a satisfactory level of audit work to inform the annual opinion. Adequate recruitment procedures exist to select appropriate employees/suppliers to deliver internal audit work. The skills and needs of the team are assessed and training is sought to maintain/develop appropriate skills.	✓		
<b>5. The HIA in a Local Authority must be professionally qualified and suitably experienced.</b>			
The HIA is CCAB qualified and suitably experienced Internal Auditor to effectively perform the role. The HIA adheres to professional and Internal Audit standards.	✓		
The HIA has sufficient knowledge of the Internal Audit and regulatory environment as well as an awareness of the full range of the Council's activities and processes.	✓		