

Meeting:	GLT	Date:	12th June 2012
	Audit & Governance Committee		25th June 2012
Subject:	Review of Effectiveness of Internal Audit		
Report Of:	Corporate Director of Resources		
Wards Affected:	N/A		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Peter Gillett, Corporate Director of Resources		
	Email: Peter.Gillett@gloucester.gov.uk	Tel:	396401
Appendices:	1. Appendix A – Review of Effectiveness of Internal Audit		
	2. Appendix B – Table of Non-Compliance		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To inform Members of the outcome of the review of the effectiveness of Internal Audit as required under the Accounts and Audit (England) Regulations 2011.

2.0 Recommendations

- 2.1 Audit & Governance Committee is asked to **RECOMMEND** to

- (1) Approve the review process and note the outcome of the review of the effectiveness of Internal Audit.

3.0 Background and Key Issues

- 3.1 The Accounts and Audit (England) Regulations 2011 includes the requirement for authorities to review the effectiveness of its internal audit once a year. The Regulations further state that the findings of this review should be included in the Annual Governance Statement.

- 3.2 The Department for Communities and Local Government (DCLG) has previously issued guidance that suggests, for authorities that have an audit committee, it is the appropriate group to receive and consider the results of the review.
- 3.3 The DCLG offers little practical guidance on how the review of effectiveness should be carried out, however, guidance has previously been received from the IPF Finance Advisory Network (FAN) on how the review might be undertaken. This guidance suggests the Head of Internal Audit could carry out a self-assessment which would then have to be independently reviewed before being submitted to the audit committee. The outcome of the self-assessment carried out by the Group Manager Audit & Assurance (GMAA), based on the guidance issued by FAN, is detailed in Appendix A, and this has been reviewed by the Corporate Director of Resources.

4.0 Alternative Options Considered

- 4.1 Not Applicable.

5.0 Reasons for Recommendations

- 5.1 The Accounts and Audit (England) Regulations 2011 includes the requirement for authorities to review the effectiveness of its internal audit once a year. The DCLG has previously issued guidance that suggests, for authorities that have an audit committee, it is the appropriate group to receive and consider the results of the review.

6.0 Future Work and Conclusions

- 6.1 As the review of the effectiveness of internal audit is a legislative requirement, a review will be carried out on an annual basis.
- 6.2 The overall conclusion is that internal audit at GCC is effective. Although the self-assessment has identified a number of 'gaps' in compliance with the CIPFA Code of Practice, these do not materially effect the reliance the Council can place on the GM AA's opinion on the adequacy of the control environment.

7.0 Financial Implications

- 7.1 As detailed in the report
(Financial Services have been consulted in the preparation this report).

8.0 Legal Implications

- 8.1 As detailed in the report.
(Legal Services have been consulted in the preparation this report).

9.0 Risk & Opportunity Management Implications

- 9.1 In essence, the need for the review is to ensure that the opinion on the adequacy of the control environment, contained in the annual report of the Group Manager Audit

& Assurance, may be relied upon as a key source of evidence in the Annual Governance Statement. The focus of this self-assessment has been on the delivery of the internal audit service to the required standards in order to produce the required outcome i.e. a reliable assurance on internal control and the management of risks in the authority.

10.0 People Impact Assessment (PIA):

- 10.1 A requirement of the Accounts & Audit Regulations 2011 is for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.
- 10.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

- 11.1 There are no community safety implications arising out of this report.

Sustainability

- 11.2 There are no sustainability implications arising out of this report.

Staffing & Trade Union

- 11.3 There are no staffing and trade union implications arising out of this report.

Background Documents: Accounts & Audit (England) regulations 2011
CIPFA Code of Practice for Internal Audit in Local
Government in the UK 2006

APPENDIX A

Review of Effectiveness of Internal Audit – 2011-12

- 1.0 The Accounts and Audit (England) Regulations 2011 includes the requirement for authorities to conduct a review of the effectiveness of internal audit, at least once a year. The Department for Communities and Local Government (DCLG) has previously issued guidance that suggests, for authorities that have an audit committee, it is the appropriate group to receive and consider the results of this review.
- 2.0 The DCLG offers little practical guidance on how the review of effectiveness should be carried out, however, guidance has previously been received from the IPF Finance Advisory Network (FAN) on how the review might be undertaken. This guidance suggests the Head of Internal Audit could carry out a self-assessment which would then have to be independently reviewed before being submitted to the audit committee. The following 'Results of the Review' is the outcome of the self-assessment carried out by the Group Manager Audit & Assurance based on the guidance issued by FAN.

3.0 Results of the Review

3.1 Definition of 'Effectiveness'

In the absence of any formal guidance, and for the purposes of this review, the effectiveness of internal audit has been taken to mean 'an assurance function that provides an independent and objective opinion to the organisation on the control environment'.

3.2 Internal Audit

Two authorities, Gloucester City Council (GCC) and Stroud District Council (SDC), formed the Gloucestershire Audit & Assurance Partnership (GAAP) in order to deliver a professional, cost effective and efficient internal audit function to the partner organisations. The provision of the internal audit service at GCC is by a team consisting of 4 staff, including the Group Manager Audit & Assurance (GMAA).

The mission statement of the Service, as identified in the Business Plan, is 'to provide an efficient cost effective Audit & Assurance service which gives, as a service to managers and to the Council, an independent and objective opinion on the adequacy and effectiveness of the Council's control environment comprising risk management, internal control, and, governance'.

3.3 Cipfa Code of Practice for Internal Audit

The DCLG guidance refers to 'proper practices' set out in the Accounts and Audit Regulations. In relation to 'proper practices' for internal audit, the DCLG guidance identifies the Code of Practice for Internal Audit in the United Kingdom, published by CIPFA. The 2006 edition was published in December 2006 and includes a checklist which is useful for assessing the effectiveness of internal audit. See attached table for details.

3.4 Key Performance Indicators for Internal Audit

The FAN guidance states the work of internal audit in providing the basis for the assurance, or opinion, on internal control, is one key element of the review. Performance is regularly monitored by the GMAA using key performance indicators for the service. Performance is also reported to Members as part of the Internal Audit Plan Monitoring Report that is presented to the Audit Committee on a quarterly basis.

The KPI's for Internal Audit, and performance, are as follows:-

Indicator	Target	Quartile	Performance 2009-10	Performance 2010-11	Performance 2011-12
Cost/Auditor (£000)	Median	Median Upper	£51.60 (£52.30)	£55.80 (£52.90) (£55.80)	£53.53 (£52.00)EST (£55.70)EST
Pay Cost/Auditor (£000)	Median	Median Upper	£40.00 (£37.70) (£37.70)	£40.00 (£39.10) (£41.50)	£40.20 (£40.30)EST (£42.20)EST
Overhead Cost/Auditor (£000)	Median	Median Upper	£11.60 (£13.10)	£15.80 (£12.00) (£14.80)	£13.37 (£13.50)EST (£15.00)EST
Productive Days per Auditor	Upper quartile	Upper Median Lower	180 (193) (177)	184 (190) (184)	168 (190)EST (184)EST (176)EST
Cost per Chargeable Audit Day	Median	Median Upper	£300 (£299) (£338)	£327 (£288) (£318)	£317 (£295)EST (£336)EST
% of Audit Plan Completed	Min 90%		83%	85%	90% (NB Revised Plan)
Level of Customer Satisfaction – per audit.	Good (3)		Good (3.26 out of 4)	Good (3.72 out of 4)	See para 4.1.5 below
Level of Customer Satisfaction – ‘whole service’	Good (5) NB – Adequate =4 Excellent = 6		>Good (4.83 out of 6)	<Good (4.93 out of 6)	>Good (5.06 out of 6)

NB The appropriate Quartile targets for 2011-12, as shown above in brackets, have been obtained from the CIPFA Benchmarking Club. These figures are estimates. The ‘actuals’ are due to be received from the Benchmarking Club in July 2012.

3.4.1 The Upper Quartile target for the ‘Productive Days per Auditor’ indicator has not been achieved. The reason for this was the high number of days absence due to sickness (72 days) compared to a budgeted figure (24 days).

3.5 Customer Feedback

At the completion of an audit, the auditee is asked to complete a questionnaire giving their views (on a scale of 1-4, 1 = Poor; 4 = Very Good) on the audit. As at the end of March 2012, only a minimal number of survey forms had been completed and returned which meant that no meaningful data could be obtained. Although the team’s procedures state an Effectiveness Survey should be issued after the completion of all appropriate audits, it is not known whether this has been complied with for each audit. Also, there has been no formal follow-up of non-returned forms.

The CIPFA Code of Practice suggests that in addition to obtaining user feedback for each individual audit, user feedback for the whole service should be obtained periodically. A Customer Satisfaction survey is undertaken on an annual basis. The survey is undertaken by the CIPFA Benchmarking Club and is intended as a measure of quality to supplement metric benchmarking data. It seeks customer judgement of the Internal Audit section on a number of issues i.e. Audit Services, Audit Staff, Conduct of Audits, Audit Reporting, Customer Service and an Overall Rating of Internal Audit.

The performance scores range from 1 (Poor) to 6 (Excellent). The survey form was sent to Gloucester Management Team (approx 60 forms) with a 30% (18) response rate. The majority of responses revealed scores of between 4 (Adequate) and 6 (Excellent) for the areas covered by the questionnaire, with the overall rating of (slightly better than) Good (average score 5.06).

Some areas received a performance score of less than 3 (Less than Adequate) from one respondent to the survey. Unfortunately, as this respondent did not include their name on the completed survey, their concerns could not be discussed further.

3.6 External Audit

The Internal Audit team have a Joint Working Agreement with the Council's External Auditors. Close co-operation between audited bodies' internal and external auditors helps to ensure that audit resources are used efficiently and to maximum effect. The aim of the Joint Working Agreement is for External Audit to place a high degree of reliance on the work of the internal audit team. This will help inform their judgement on the Council's financial control environment, and is also one of the factors taken into account when calculating the External Audit fee.

In addition to the annual review of effectiveness, the Council's External Auditors, KPMG, also carry out an overall assessment of the internal audit function. In their 'Interim Audit Report 2011/12', dated June 2012, it states that KPMG assessed internal audit against the eleven standards set out in the CIPFA Code of Practice for Internal Audit in Local Government. The result of their full assessment was that internal audit fully complies with the Code.

Terry Rodway
Group Manager Audit & Assurance
28th May 2012

APPENDIX B

REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2011/12

The following narrative provides a commentary on those areas where it has been assessed that the Council is not fully compliant, referenced to the Checklist.

Non Compliance

Ref	Adherence to the Standard	Evidence	Action	Date
2.1.1	Is Internal Audit (b) free from any non-audit (operational) duties?	<p>Non audit duty undertaken by IA are the control of receipt books, the maintenance of the Certifying Officer lists, the nominated NFI Key Contact role, and involvement in corporate groups such as the Corporate Governance Group and the Group Managers Group.</p> <p>As a result of a vacancy within the team, the Director of Resources took the opportunity to review the duties of the vacant post, which now include responsibility for Risk Management and Value for Money.</p>	<i>Accepted by Strategic Director (Resources).</i>	N/A
2.1.2	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?	<p>Any advice given during system policy or procedure development should be given without prejudice to the right of Internal Audit to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date. Audit staff should remind auditees of this fact when giving advice on new systems/procedures.</p> <p>This is included within the agreed Internal Audit Strategy.</p>	<i>None. Whilst this would demonstrate true independence, this practice is not always practicable within a small team. In addition, it is more beneficial to identify required controls at system/policy implementation stage, rather than some time after implementation.</i>	N/A
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	Not reviewed on a regular basis.	<i>Internal Audit Manual to be reviewed and updated</i>	<i>By 31/12/12</i>

Partial Compliance

Ref	Adherence to the Standard	Evidence	Action	Date
1.1.3	Are terms of reference regularly reviewed?	IA Charter states a regular review will be undertaken. The previous formal review was approved by Audit Committee in September 2008.	<i>Review of IA Charter.</i>	<i>By 30/9/12</i>
1.3.1 (b)	Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the resources to do this?	Experience, qualifications and previous fraud & corruption work, & consultancy, work would evidence this. No spare resources exist for this type of work.	<i>Consultancy work will only be undertaken where available resources exist, fraud work usually undertaken at the expense of planned work. Any identified frauds are referred to the Police for investigation.</i>	<i>N/A</i>
8.3.3	Is there an access policy for audit files and records?	No formal access policy, however, audit files kept in locked cabinets.	<i>Access policy to be agreed.</i>	<i>By 30/9/12</i>
11.3.2 (b)	Does the performance management and quality assurance framework include user feedback obtained for each individual audit and periodically for the whole service?	Although the procedures state an Effectiveness Survey should be issued after the completion of all appropriate audits, only 2 have been completed and returned for 2011-12. Although there is no formal follow-up of non-returned forms, it is not known whether this may also be due to the survey form not being issued in the first place.	<i>All IA staff to be reminded of the need to issue an Effectiveness Survey after the completion of all appropriate audits.</i> <i>Follow-up non-return of survey forms.</i>	<i>To commence from May 2012</i>