

Meeting:	GLT	Date:	11th June 2013
	Audit & Governance Committee		24th June 2013
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		
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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 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.

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 One of the main areas of partial compliance relates to Customer Feedback. Feedback on the service is important to help assess the quality of the service provided to the user. Although a survey form was sent out at the conclusion of each main audit only a minimal number were completed and returned. As a result of this low rate of return, following a review by the Director of Resources also agreed by the Gloucester Leadership Team (GLT), arrangements have been put in place to mandate managers to respond to the survey at the same time as responding to audit recommendations.

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 A&A's opinion on the adequacy of the control environment.

7.0 Financial Implications

7.1 None specific to the recommendation made in this 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

Report to Director of Resources

Review of Effectiveness of Internal Audit – 2012-13

- 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

3.1.1 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'.

3.1.2 Internal Audit

Two authorities, Gloucester City Council (GCC) and Stroud District Council (SDC), formed the Gloucestershire Audit & Assurance Partnership (**G A A P**) in order to deliver a professional, cost effective, 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'.

3.1.3 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 in 2006. The Code includes a checklist which is useful for assessing the effectiveness of internal audit. See attached table for details.

3.1.4 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	Performance 2010-11	Performance 2011-12	Performance 2012-13
Cost/Auditor (£000)	Median	£55.80 (£52.90) M (£55.80) UP	£53.98 (£53.53) M (£61.31) UP	£63.49 (£57.80) AVGE
Pay Cost/Auditor (£000)	Median	£40.00 (£39.10) M (£41.50) UP	£40.49 (£39.40) M (£44.13) UP	£41.82 (£42.87) AVGE
Overhead Cost/Auditor (£000)	Median	£15.80 (£12.00) M (£14.80) UP	£13.49 (£13.11) M (£13.78) UP	£18.10 (£14.92) AVGE
Productive Days per Auditor	Upper quartile	184 (190) UP (184) M	181 (203) UP (184) M	168 (200)EST (188)EST
Cost per Chargeable Audit Day	Median	£327 (£288) M (£318) UP	£348 (£294) M (£322) UP	£395 (£353) AVGE
% of Audit Plan Completed	Min 90%	85%	90% (Revised Plan)	86% (NB Revised Plan)
Level of Customer Satisfaction – per audit.	Good (3)	Good (3.72 out of 4)	See para 4.1.5 below	See para 4.1.5 below
Level of Customer Satisfaction – 'whole service'	Good (5) NB – Adequate = 4 Excellent = 6	>Good (4.93 out of 6)	<Good (5.06 out of 6)	No Survey carried out.

Key:-

LQ = Lower Quartile

M = Median

UP = Upper Quartile

NB The figures for 2012-13 include the group 'average' figures obtained from the CIPFA Benchmarking Club. The appropriate Quartile figures for 2012-13 are due to be received from the Benchmarking Club in July 2013.

The 'Productive Days per Auditor' figure for 2012/13 is low compared to previous years. The reason for this was the high number of days absence due to sickness - 139 days compared to a budget of 24 days – however this was mitigated to a certain extent by the use of agency staff.

3.1.5 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.

As a result of this, a review of arrangements was carried out by the Corporate Director of Resources and agreed by Gloucester Leadership Team (GLT) on 11th June 2013 - the outcome of which is that all managers are now mandated to complete the survey forms at the same time that they respond to the audit recommendations. A 100% return rate is therefore expected in the current financial year.

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, which is planned to be undertaken on an annual basis, is normally undertaken by the CIPFA Internal Audit Benchmarking Club. However, they did not undertake a survey during 2012/13.

3.1.6 External Audit

The Internal Audit team have a Joint Working Protocol 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 Protocol 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.

The formal feedback received from KPMG (letter dated 15th May 2013) on relevant internal audit work carried out during 2012/13 states:-

"We reviewed internal audit's work on the key financial systems for those reviews that were concluded prior to February 2013. We have not yet re-performed any of internal audit's testing, nor have we concluded on the controls in operation at the council during the financial year ended 31 March 2013.

We did not identify any significant issues with internal audit's work and can report that we are again pleased with the way internal audit document and evaluate their findings".

4.0 **The new Internal Audit Standards**

The 1st April 2003 sees the introduction of the new United Kingdom Public Sector Internal Audit Standards (PSIAS) that will apply across the whole of the public sector. The PSIAS replace the *Code of Practice for Internal Audit in Local Government in the*

United Kingdom. The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced a Local Government Application Note to provide guidance to local authorities on how to apply the new standards. Following discussions with the DCLG with regards to what constitutes 'proper practices' in internal control as per the Accounts and Audit Regulations 2011, CIPFA have now advised that the 'proper practices' for UK local government are the PSIAS plus the Local Government Application Note. Therefore, the content of both these documents must be followed in order to satisfy proper internal audit practices.

5.0 Conclusions

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.

The overall conclusion is that internal audit at GCC is effective. Although this self-assessment has identified a number of 'gaps' in compliance with the Cipfa Code of Practice, it is the author's view that these do not materially effect the reliance the Council can place on the Group Manager Audit & Assurance' opinion on the adequacy of the control environment.

Terry Rodway
Group Manager Audit & Assurance
28th May 2013

REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2012/13

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 duties undertaken by IA are the control of receipt books, the nominated NFI Key Contact role, and, involvement in corporate groups such as the Corporate Governance Group.</p> <p>Following a review by the Director of Resources in 2010, a member of the team now has 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

Ref	Adherence to the Standard	Evidence	Action	Date
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>	By 31/12/13

Partial Compliance

Ref	Adherence to the Standard	Evidence	Action	Date
1.1.3	Are the IA 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>The IA Charter needs to be reviewed following the introduction of the Public Sector Internal Audit Standards (PSIAS) wef 1st April 2013.</i>	By 30/9/13
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>	N/A
6.2.1	(b) Are individual auditors periodically assessed against predetermined skills and competencies? (c) Are training or development needs identified and included in an appropriate ongoing development programme?	Informal reviews only carried out during 2012/13 due to the GCC Appraisal Scheme being subject to review.	<i>Formal appraisals to be carried out in accordance with revised appraisal scheme</i>	By 31/3/14

Ref	Adherence to the Standard	Evidence	Action	Date
7.1.1(b)	Is the Internal Audit Strategy kept up to date with the organisation and its changing priorities?	Internal Audit Strategy approved at Audit Committee 8 th December 2011 (Min No.34). NB IA Strategy states subject to regular review.	<i>The Internal Audit Strategy needs to be reviewed following the introduction of the Public Sector Internal Audit Standards (PSIAS) wef 1st April 2013.</i>	<i>By 30/9/13</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 30/9/13</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 procedures state that a client Satisfaction survey should be issued after each audit, only a minimal number were completed and returned in 2012/13.	<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>Carry out annual survey</i>	<i>Commencing from May 2013.</i>