

# Gloucester City Council

<b>Meeting:</b>	<b>Audit &amp; Governance Committee</b>	<b>Date:</b>	<b>26 June 2014</b>
<b>Subject:</b>	<b>Review of Effectiveness of Internal Audit</b>		
<b>Report Of:</b>	<b>Corporate Director of Resources</b>		
<b>Wards Affected:</b>	<b>N/A</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Peter Gillett, Corporate Director of Resources</b>		
	<b>Email:</b>	<b><a href="mailto:Peter.Gillett@gloucester.gov.uk">Peter.Gillett@gloucester.gov.uk</a></b>	<b>Tel:</b> 396401
<b>Appendices:</b>	<b>A: Review of Effectiveness of Internal Audit</b>		
	<b>B: Table of Non-Conformance</b>		

## 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 Audit, Risk & Assurance Manager 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 Gloucester City Council is effective. Although the self-assessment has identified a number of 'gaps' in conformance with the Public Sector Internal Audit Standards (PSIAS) (detailed at Appendix B), these do not materially effect the reliance the Council can place on the Audit, Risk & Assurance Manager'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 Audit, Risk & Assurance Manager, 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  
Public Sector Internal Audit Standards (PSIAS)

## Appendix A

### Report to Corporate Director of Resources

#### **Review of Effectiveness of Internal Audit – 2013/14**

- 1.0 The Accounts and Audit (England) Regulations 2011 include 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 Audit, Risk & Assurance Manager.

### **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 (**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 Audit, Risk & Assurance Manager.

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

#### 3.3 Public Sector Internal Audit Standards (PSIAS)

The PSIAS, which replaced the previous CIPFA Code of Practice for Internal Audit, became effective from 1<sup>st</sup> April 2013. The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

These new Standards are intended to promote further improvement in the professionalism, quality, consistency, and, effectiveness of internal audit across the

public sector. 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.

One of the specific requirements of the Accounts & Audit Regulations 2011 is that a relevant body must '*undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*'. Following discussions with the DCLG with regards to what constitutes 'proper practices', CIPFA have advised that 'proper practices' for UK local government is 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. The Local Government Application Note includes a checklist which is useful for assessing conformance with the PSIAS and therefore informing the review of the effectiveness of internal audit.

### 3.4 Key Performance Indicators for Internal Audit

The PSIAS state that performance monitoring should include performance targets. Performance is regularly monitored by the Audit, Risk & Assurance Manager using key performance indicators (KPI's) 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 2011-12	Performance 2012-13	Performance 2013-14 (Estimates)
Cost/Auditor (£000)	'Average'	£53.98 (£54.59) Avge	£60.99 (£55.91) Avge	£58.06 (£57.28) Avge
Pay Cost/Auditor (£000)	'Average'	£40.49 (£41.77) Avge	£43.55 (£41.54) Avge	£43.28 (£42.08) Avge
Overhead Cost/Auditor (£000)	'Average'	£13.49 (£12.82) Avge	£17.44 (£14.37) Avge	£14.78 (£15.20) Avge
Productive Days per Auditor	'Average'	181 (166) Avge	161 (166) Avge	174 (173) Avge
Cost per Chargeable Audit Day	'Average'	£348 (£358) Avge	£392 (£374) Avge	£313 (£359) Avge
% of Audit Plan Completed	Min 90%	90% (Revised Plan)	86% (Revised Plan)	88%
Level of Customer Satisfaction – per audit.	Good (3)	See para 3.5 below	See para 3.5 below	>Good (3.6) NB See para 3.5 below

NB (1) The Average (Avge) figures relate to the group average figures obtained from the CIPFA Benchmarking Club. The group relates to the Shire Districts who are members of the Benchmarking Club.

(2) The performance figures for 2013-14 are estimates. The 'actuals' figures for 2013-14 are due to be published in July 2014

### 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; 2 = Fair; 3 = Good; 4 = Very Good) on the audit. This is in accordance with PSIAS which states that performance monitoring should include stakeholder feedback.

As at the end of March 2014, only a minimal number of survey forms had been completed and returned (19% response rate). Although the results of the survey indicate a 'Good' rating (average score 3.6), the results are being treated with an element of caution due to the relatively low response rate.

Due to the low response rate, a revised method of obtaining feedback is to be introduced during 2014/15. This should make the task of providing feedback a simpler process, which, together with some support from SMT, should hopefully increase the level of feedback.

### 3.6 External Audit

The Audit & Assurance 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 External Audit Interim Audit Report 2013/14 confirms that KPMG:

'...did not identify any significant issues with internal audit's work and are pleased to report that (KPMG) are again able to place full reliance on their (Internal Audit's) work on the key financial systems. In our opinion Internal Audit's files contained appropriate evidence to support the conclusions reached; reports are clear and easy to follow; and there is clear evidence of management review of work completed.'

## 4.0 **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 Gloucester City Council is effective. Although this self-assessment has identified a number of 'gaps' in conformance with the PSIAS (detailed at appendix B), it is the author's view that these do not materially effect the reliance the Council can place on the Audit, Risk & Assurance Manager's opinion on the adequacy of the control environment.

Terry Rodway  
Audit, Risk & Assurance Manager  
6<sup>th</sup> June 2014

### Table of Non-Conformance

The following narrative provides a commentary on those areas where it has been assessed that the Audit & Assurance service does not fully conform to the PSIAS.

#### Non-Conformance

<b>Standard</b>	<b>Conformance to the Standard</b>	<b>Evidence</b>	<b>Action</b>	<b>Date</b>
1110 – Organisational Independence	<p>The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity:</p> <ul style="list-style-type: none"> <li>- The Audit &amp; Governance Committee approves the internal audit budget and resource plan.</li> <li>- The Audit &amp; Governance Committee approves decisions relating to the appointment and removal of the Audit, Risk &amp; Assurance Manager.</li> <li>- The chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Audit, Risk &amp; Assurance Manager.</li> <li>- Feedback is sought from the chair of the Audit &amp; Governance Committee for the Audit, Risk &amp; Assurance Manager's performance appraisal.</li> </ul>	Recognised as non-conformance items – reported to Audit & Governance Committee 23/09/13.	<i>Accepted by Corporate Director (Resources).</i>	N/A



<b>Standard</b>	<b>Conformance to the Standard</b>	<b>Evidence</b>	<b>Action</b>	<b>Date</b>
1312 – External Assessments	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	Whilst the requirement to carry out an external assessment is known, this has not been carried out or planned to be carried out.	<i>Discuss with the Corporate Director of Resources and the Chair of Audit &amp; Governance Committee the scope and timetable for the external review</i>	<i>By 31/03/15</i>
2010 - Planning	Does the risk-based plan set out the:- <ul style="list-style-type: none"> <li>- Respective priorities of the audit work to be carried out?</li> <li>- Differentiate between audit and other types of work?</li> </ul>	<ul style="list-style-type: none"> <li>- The plan does not prioritise the audits to be completed. All audits are scheduled for completion within the plan and are not ranked low/medium/high priority.</li> <li>- Non audit work (VFM/risk management/project work by the team) is not captured through the plan.</li> </ul>	<i>Accepted by Corporate Director (Resources).</i>	<i>N/A</i>
2110 - Governance	Has the internal audit activity evaluated the: <ul style="list-style-type: none"> <li>a) Design</li> <li>b) implementation, and</li> <li>c) effectiveness</li> </ul> of the organisation's ethics-related objectives, programmes and activities?	This was not identified as an area of significant risk when the Annual Internal Audit Plan 2014/15 was being discussed.	<i>This issue will be discussed at the officer Corporate Governance Group to determine the extent of the work required.</i>	<i>By 31/12/14</i>
2110 - Governance	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	This was not identified as an area of significant risk when the Annual Internal Audit Plan 2014/15 was being discussed.	<i>There is provision within the 2014/15 Plan for an information technology audit, and this area will be considered when agreeing the scope for this audit.</i>	<i>By 31/03/14</i>

**Partial Conformance**

<b>Standard</b>	<b>Conformance to the Standard</b>	<b>Evidence</b>	<b>Action</b>	<b>Date</b>
Definition of IA	Is the internal audit activity independent?	Audit, Risk & Assurance Manager also has responsibility for risk management.	<i>Accepted by Corporate Director (Resources). Internal audit of risk management arrangements sourced externally.</i>	N/A
1000 – Purpose, Authority & Responsibility	Does the Internal Audit Charter establish the responsibility of the Audit & Governance Committee and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit?	IA Charter refers to the role of the CFO, the Proper Officer (Corporate Director of Resources), and Monitoring Officer (Para 8.2) – Head of Paid Service not specifically referred to.	<i>To be included as part of the review of the Internal Audit Charter by the Audit, Risk &amp; Assurance Manager</i>	By 30/09/14
1130 – Impairment to Independence or Objectivity	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	Wherever possible, however, scope for rotation is limited within a small internal audit team	<i>Accepted by Corporate Director (Resources).</i>	N/A
1311 – Internal Assessments	Does ongoing performance monitoring include comprehensive performance targets?	The performance targets in place relate to the number of days to complete an individual audit (individual – based on audit budget) and target % completion of the annual plan (team). Cost comparison via CIPFA Audit Benchmarking Club is also completed. However, Effectiveness survey response rates are low.	<i>A revised method of inviting stakeholder feedback is to be introduced during 2014/15.</i>	By 31/07/14

<b>Standard</b>	<b>Conformance to the Standard</b>	<b>Evidence</b>	<b>Action</b>	<b>Date</b>
2010 - Planning	Does the Audit, Risk & Assurance Manager take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them? Are consulting engagements that have been accepted included in the risk-based plan?	The audit plan does not formally include consulting services (i.e. services outside of audit). Any consulting engagements agreed would be taken out of the Contingency element of the Annual Internal Audit Plan.	<i>Accepted by Corporate Director (Resources).</i>	<i>N/A</i>
2040 – Policies and Procedures	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	The Internal Audit Charter is the main policy that guides audit procedure. This was last updated as at Sept 13. Other policies and procedures (e.g. audit manual; standard working papers; standard report template) are in place, however some are either out of date or are inconsistent between audit sites.	Documentation to be reviewed, updated and communicated to the team in 2014/15.	<i>Complete review by 31/03/15</i>